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PREPARATION FOR THE 1990 FARM BILL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST AND SECOND SESSIONS

ON

LIVESTOCK AND POULTRY, FEED GRAINS, OILSEEDS, AND COTTON

SEPTEMBER 15 AND 21, 1989; FEBRUARY 1 AND MARCH 1, 1990

PART VI

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PREPARATION FOR THE 1990 FARM BILL

Livestock and Poultry

FRIDAY, SEPTEMBER 15, 1989

U.S. Senate,
Subcommittee on Agricultural Production and
Stabilization of Prices of the
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor, chairman of the subcommittee, Hon. Max Baucus, presiding.

Present or submitting a statement: Senators Baucus, Conrad, Kerrey, Cochran and Bond.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator Baucus. The subcommittee will come to order.

First, I would like to announce that prepared testimony will be entered into the record in the interest of time; that is, I would encourage each witness when testifying to submit your full prepared statement for the record and then summarize the testimony; both to meet the time constraints that we have today and to help get to the heart of the matter within the timeframe that we have.

Second, the record will be open for submission of testimony for 2 weeks. So, at the conclusion of this hearing today, if any of you want to submit more testimony as backup material, there will be 2 additional weeks.

This is the first of a series of hearings that the Senate Agriculture Committee is holding in preparation for drafting the 1990 farm bill. We plan to take a hard look at the recommendations that each segment of the U.S. farm community has in preparation for the drafting of the 1990 farm bill.

The focus today, however, is on the livestock industry.

Livestock producers are a critical segment of American agriculture. In my State, for example, livestock producers account for almost 60 percent of cash receipts flowing into the agricultural economy.

The livestock producers have by and large gone it on their own without government support. Their income has been dependent on the market, not government programs. Thus, livestock producers have had less of a direct stake in the farm bill than any other segment of the farm community.

For the most part, the main concern of livestock producers has been ensuring that the farm program keep feed grain prices at a reasonable level. But the dairy buy-out debacle demonstrated that livestock producers must also see to it that the farm program does not subsidize the competition.

This general pattern is likely to hold as we write the 1990 farm bill.

Livestock producers show little interest in a support price program similar to that used by wheat, feed grain, and soybean farmers. But, as this hearing will demonstrate, livestock producers do have a number of concerns.

The livestock industry's top priority in the farm bill probably is still maintaining stable, reasonable grain prices. But there is also considerable interest in exploring a number of other issues in the farm bill.

The list includes the operation of the emergency feed program, livestock inspection, disease control, and concern over the increasing concentration in the beef packing industry. The Senate Agriculture Committee members will carefully examine all of these issues as we begin to debate the farm bill.

I am particularly concerned with the concentration in the beef packing industry.

Almost 80 percent of the U.S. beef packing industry is today controlled by three large packers: Iowa Beef Packing, ConAgra, and Excell, a Cargill affiliate. Only 11 years ago, the beef packing industry was far more diversified. The four largest packers controlled less than 30 percent of the market at that time. Now in some areas of the country, only one or two of these beef packers control the entire market.

Perhaps these three beef packers are enough to ensure healthy competition in the U.S. packing industry. Cattle prices have been strong in recent years, thanks to recovering domestic demand and a growing export market. But if cattle prices take a down-turn, such concentration creates the opportunity for collusion. And that could rob both American cattlemen and American consumers of millions of dollars.

In Montana, concern about beef packing concentration stretches across the ideological spectrum. Every major agricultural group in Montana is concerned. Any of us who have been involved in agricultural policy know how rare that kind of consensus is.

I believe it is time to undertake a comprehensive investigation of beef packing concentration. If any problems appear, the Justice Department should immediately employ the U.S. antitrust law to address them.

I am not prejudging the outcome of an investigation. But if a collusive trust is robbing American cattlemen and consumers, we should be ready to act.

I look forward to a wide-ranging discussion of this and other issues affecting the livestock industry today.

I see now that I am joined by a colleague, Senator Kerrey of Nebraska. Does the Senator have a statement at this point?

Senator KERREY. No.

Senator BAUCUS. Let us proceed with the hearing. Our first witness is Tom Von Garlem, who is Assistant Deputy Administrator, State and County Operations, Agricultural Stabilization and Conservation Service.

Tom, come forward and sit right in the middle where I can see you better. I will give you 20 minutes; next, Mr. Grimes, 15 minutes; and the remaining witnesses 5 minutes each. Please begin, Tom, you are the comprehensive lead-off here.

Mr. **Von Garlem**. Good morning, Mr. Chairman. I have a statement that includes historical developments, outlook, policy considerations, conclusions and some graphs, some tables that would back up those views. If you like, I will present the whole thing. I will settle for policy considerations and conclusions if it is convenient for you.

Senator **Baucus**. What was the former? I am sorry, I did not hear that.

Mr. **Von Garlem**. I would limit my comments strictly to policy considerations and conclusions and submit the remainder for the record.

Senator **Baucus**. That would be better.

Mr. **Von Garlem**. If it is convenient for you.

Senator **Baucus**. Let us do that, thank you.

STATEMENT OF THOMAS A. VON GARLEM, ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Von Garlem**. Good morning, Mr. Chairman and Senator Kerrey.

INTRODUCTION

I welcome the opportunity and the invitation to appear here today to discuss the livestock issues in the context of the 1990 farm bill. We in USDA are pleased to work with the Congress to forge a meaningful piece of legislation.

POLICY CONSIDERATIONS

Under policy considerations, our view is the livestock industry, of course, has traditionally been considered one of the most independent segments of production agriculture. Producers have generally resisted the attempts to institute the supply controls and price supports common for other commodities such as grain, wool, or milk. However, the sector is affected by farm policies and programs far more than this perspective would otherwise imply. Agricultural policies and regulations affect livestock operators directly through items such as disaster assistance and disease control programs, and indirectly through feed supply controls and price supports.

With regard to the question of general policy environment, we believe that the 1990 farm bill should focus on increasing market orientation while ensuring flexibility, controlling costs, and enhancing competitiveness. We need more flexibility in the price and income support and acreage programs in particular to give us greater farm and tax dollar returns, enhance sector efficiency, and protect the environment.

A key goal is to avoid the sharp fluctuations in feed supplies and prices that have buffeted the livestock industry in the past two decades. An additional goal is to provide an environment that will allow the livestock industries to freely participate in international livestock export markets.

We will also have to keep a number of more specific livestock program concerns in mind, recognizing that some are traditionally dealt with outside the farm bills. These include but are not limited to: emergency feed assistance; haying and grazing; environmental controls; and research and market promotion or development.

Disaster feed assistance has been an important issue over the past 12 to 18 months and is likely to come up repeatedly during farm bill debates.

Over the years, programs have been implemented to provide for emergency assistance to livestock producers who have suffered substantial loss of feed production because of natural disaster. These include cost-share assistance to purchase replacement feed, access to federally owned livestock grain stocks at below-market cost, and emergency haying and grazing of lands idled under annual commodity programs and long-term CRP retirement programs. The livestock industry is vulnerable to drought, flooding, winter storms, disease and a wide range of other disasters that can seriously undermine the financial well-being of the producers. The issue of how best to provide relief to affected individuals is important and real as witnessed by the drought of 1988 and to a lesser degree in 1989.

A review of current disaster assistance and emergency relief programs may be in order. Specific amendments to existing legislation may be desirable if problems are identified with current authorities. Alternatively, consideration of broader programs for livestock might be entertained. More comprehensive assistance programs ranging in concept from optional livestock insurance to a single disaster and emergency relief program could be conceived and reviewed for potential efficiency in addressing risks faced by livestock producers.

CONCLUSION

In conclusion, livestock generally has not been a major policy concern in past farm bills. This may change, however, in the upcoming debate. Livestock producers are affected by policies shaping the sector as a whole and by specific program provisions. We need to recognize this more clearly. We also have to address livestock-specific concerns. In this regard, disaster emergency relief may be an area for program review, and perhaps modification.

Increased access to international markets is important to the future of the livestock industries; however, production improvements will strongly influence the potential for benefits from more open markets. Feed for forage supplies and prices, as affected by agricultural policies in the 1990's, will be crucial factors for efficient livestock production.

This concludes my testimony. I would be glad to respond to questions.

[The prepared statement and attachments of Mr. Von Garlem follow:]

STATEMENT OF THOMAS A. VON GARLEM, ASSISTANT DEPUTY ADMINISTRATOR, STATE AND COUNTY OPERATIONS, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee, I welcome the invitation to appear here today to discuss livestock issues in the context of the 1990 Farm Bill. We in USDA are pleased to work with the Congress to forge a meaningful piece of legislation.

I'll focus my remarks today on the state of the sector at the end of the 1980's, prospects for the 1990's, and the major policy issues we're likely to face over the next several months of debate.

Historical Developments

The livestock industries--beef, sheep, pork, and poultry--have undergone dramatic adjustments in the past two decades. In recent years, the healthy economy, increased access to international markets, the development of new products, leaner red meats, production improvements, and generally low feed costs have strengthened the industries. But while the total per capita supplies of red meat and poultry are at record levels, their composition has changed since the beginning of the 1970's. The poultry share of the total meat market has increased. The livestock industry is generally more concentrated.

The cattle industry has seen dramatic fluctuations in the past two decades, but enters the 1990's in a production position surprisingly similar to the start of the 1970's. Cattle numbers are at a cyclical low, down from 112 million head in 1970 to just under 100 million currently. Slaughter-weights have increased over the past two decades so total production is up slightly. However, because of population growth, per capita beef consumption is down to 69 pounds, the lowest level since the early 1960's.

Between 1970 and 1989, the cattle industry faced wide fluctuations in net returns related to changes in meat prices and, more importantly, to changes in feed supplies and prices. The 1970's were particularly unsettled. Cattle numbers ballooned until mid-decade in response to rising returns and then fell as quickly as feed costs rose. Cattle numbers ended the 1970's about where they began. Increased pasture became available in the 1980's as idled acreage rose under annual crop programs. The smaller herd and more pasture available has moved the industry toward proportionately more forage and less grain feeding than in the 1960's and 1970's. As we continue our Farm Bill deliberations, we need to be keenly aware that crop programs will continue to determine the competitive environment for beef and other livestock production.

The cow-calf industry's dependence on the land base has kept the producers relatively small and geographically decentralized. However, the cattle feeding industry has become much more concentrated, with large specialized firms located in the Great Plains States. The poultry and pork industries depend more on feed grains and soybeans than do cattle. But as poultry and pork operations have become larger and more capital intensive, feed costs have become a slightly smaller proportion of total costs. Fluctuations in crop prices are still critical to profitability in the pork and poultry industries, but now lead to smaller fluctuations in output--fewer movements in and out of production--than in the 1960's and 1970's.

The pork industry changed dramatically in the 1960's and 1970's from a traditionally supplemental enterprise located largely on corn-soybean farms to more capital intensive and larger specialized operations. In general, today's fewer and larger operations are more efficient and produce and market hogs regularly throughout the year, minimizing seasonal variations in pork production.

Poultry producers have achieved substantial cost-savings and gains in productivity since 1970. Consequently, broiler prices have dropped relative to red meat prices, with poultry increasing its market share. The industry has also responded to consumer demand for convenience and variety by marketing chicken parts as well as whole birds. The industry has also worked with restaurants and food stores in developing new chicken products and combinations. Trends in the turkey industry are similar to those for broilers. The industry is shifting away from whole turkeys primarily sold during the holiday season to parts and processed products sold year-round.

Outlook

The livestock industries that emerged from the past two decades of fluctuating costs and returns, restructuring, and changing consumer demand are positioned for expansion in the 1990's. The stable supplies of moderately-priced feed, modest inflation, steady growth in real disposable income, and ample forage supplies, should encourage operators to expand, although at a different pace in each of the livestock sectors. The expansion likely in this environment could exceed population growth so that per capita retail meat supplies will continue to set records. It will be critical for the livestock industries to effectively market here and abroad.

Most of the near term expansion in meat production will be in poultry because of its shorter reproduction cycles and cost advantages. The expansion in cattle will initially reduce beef supplies as producers retain heifers for breeding. Hogs have a shorter reproduction cycle than cattle and will respond faster although not immediately.

Production of broiler and turkey meats is likely to continue increasing, with its relatively lower prices supporting further gains in market share. Strong, and often subsidized, competition in the world poultry meat market is expected to constrain growth in U.S. poultry exports to modest increases.

Pork production is likely to begin expanding in 1991 or 1992, following a small decline in 1990. Throughout the next decade, per capita consumption is likely to fluctuate within pork's historical average of 60 to 65 pounds per capita. Exports and imports are expected to remain relatively stable, affected primarily by hog cycles and exchange rates.

The cattle industry will likely shift toward more animals moving into feed lots at heavier weights later in the production process. This will hold down grain use per pound of beef produced. The shift will be important for projections of domestic use of program crops as Farm Bill deliberations continue.

Adjustments in world beef trade will be even more critical in the 1990's. The United States is expected to remain the primary source of high quality fed beef for export. The United States will compete with Australia and other exporters for expanding markets in Japan and other Pacific Rim countries. U.S. imports of mostly lower quality beef are expected to remain near present levels depending on the cattle cycle and as provided for in the Meat Import Act.

Policy Considerations

The livestock industry has traditionally been considered one of the most independent segments of production agriculture. Producers have generally resisted attempts to institute the supply controls and price supports common for other commodities such as grain, wool, or milk. However, the sector is affected by farm policies and programs far more than this perspective implies. Agricultural policies and regulations affect livestock operators directly through items such as disaster assistance and disease control programs, and indirectly through feed supply controls and price supports.

With regard to the question of general policy environment, we believe that the 1990 farm bill should focus on increasing market orientation while ensuring flexibility, controlling costs, and enhancing competitiveness. We need more flexibility in the price and income support and acreage programs in particular to give us greater farm and tax dollar returns, enhance sector efficiency, and protect the environment.

A key goal is to avoid the sharp fluctuations in feed supplies and prices that have buffeted the livestock industries in the past two decades. An additional goal is to provide an environment that will allow the livestock industries to freely participate in international livestock export markets.

We will also have to keep a number of more specific livestock program concerns in mind, recognizing that some are traditionally dealt with outside the Farm Bills. These include but are not limited to:

- emergency feed assistance;
- haying and grazing;
- environmental controls; and
- research and market promotion/development.

Disaster feed assistance has been an important issue over the last 12-18 months and is likely to come up repeatedly during farm bill debates.

Over the years, programs have been implemented to provide for emergency assistance to livestock producers who have suffered substantial loss of feed production because of natural disaster. These included cost-share assistance to purchase replacement feed, access to Federally-owned feed grain stocks at below market cost, and emergency haying and grazing of lands idled under annual commodity programs and long term land retirement programs. The livestock industry is vulnerable to drought, flooding, winter storms, disease and a wide range of other disasters that can seriously undermine the financial well being of producers. The issue of how best to provide relief to affected individuals is important and real as witnessed by drought in 1988 and to a lesser degree in 1989.

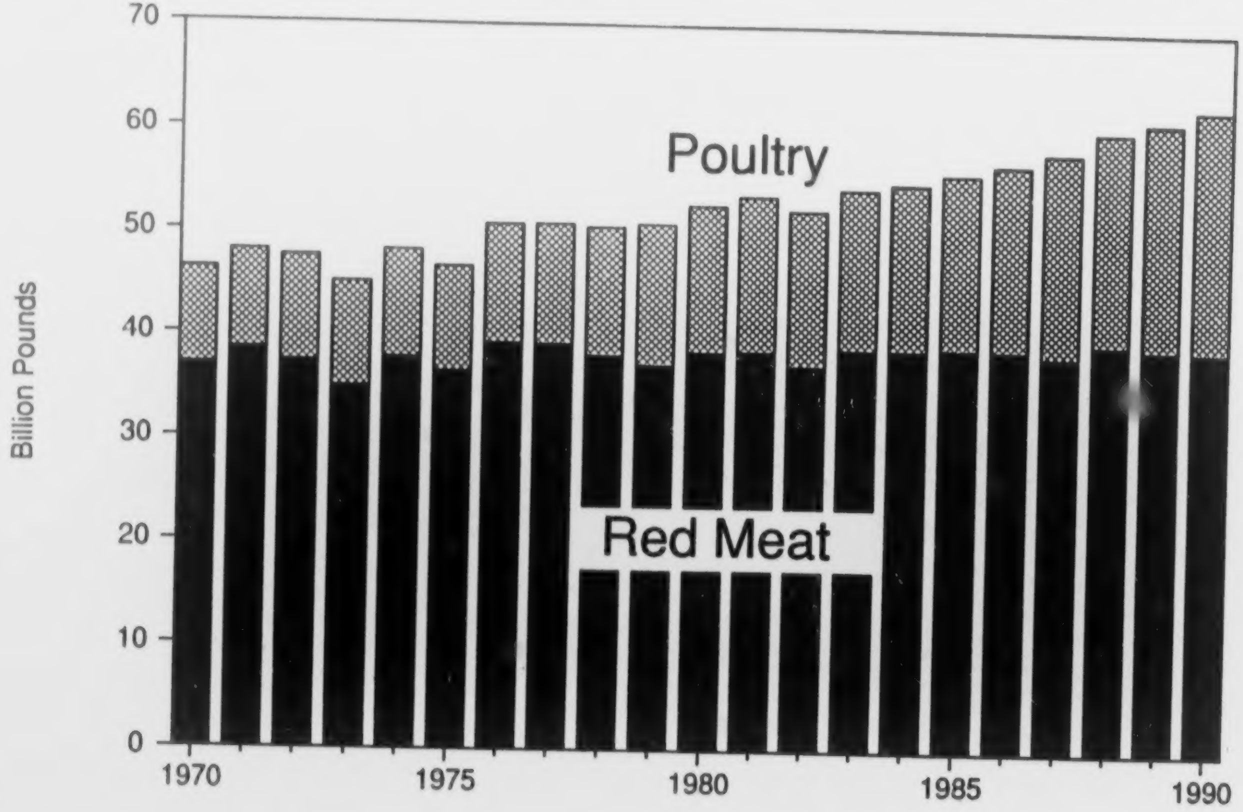
A review of current disaster assistance and emergency relief programs may be in order. Specific amendments to existing legislation may be desirable if problems are identified with current authorities. Alternatively, consideration of broader programs for livestock might be entertained. More comprehensive assistance programs ranging in concept from optional livestock insurance to a single disaster and emergency relief program could be conceived and reviewed for potential efficiency in addressing risks faced by livestock producers.

CONCLUSION

Livestock generally hasn't been a major policy concern in past Farm Bills. This may change, however, in the upcoming debate. Livestock producers are affected by policies shaping the sector as a whole and by specific program provisions. We need to recognize this more clearly. We also have to address livestock-specific concerns. In this regard, disaster emergency relief may be an area for program review, and perhaps modification.

Increased access to international markets is important to the future of the livestock industries; however, production improvements will strongly influence the potential for benefits from more open markets. Feed and forage supplies and prices, as affected by agricultural policies in the 1990's, will be crucial factors for efficient livestock production.

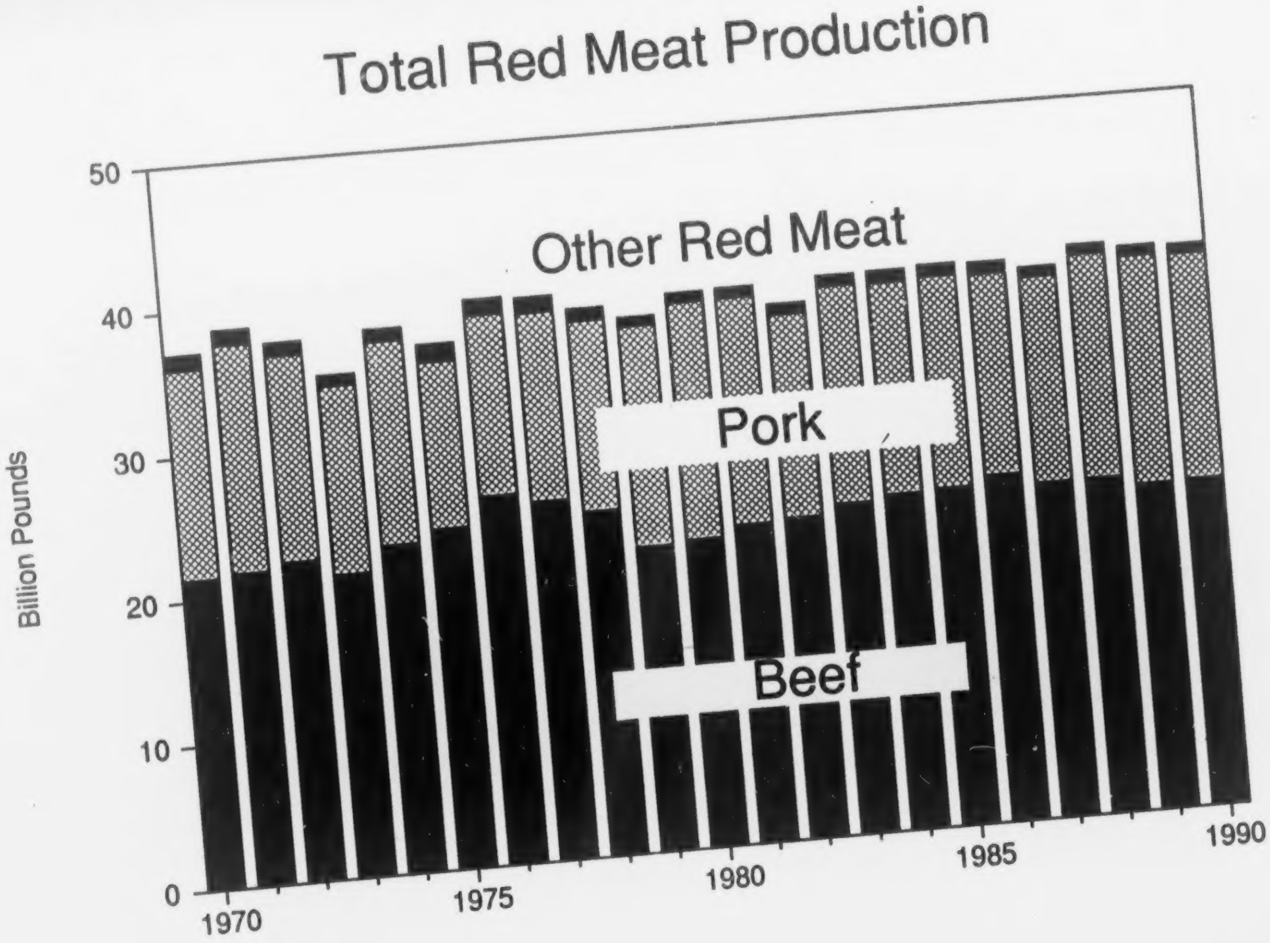
This concludes my testimony and I will be glad to respond to questions.



Total Red Meat and Poultry Production

MEAT PRODUCTION
(BILLION POUNDS)

YEAR	RED MEAT	POULTRY	TOTAL MEAT
1970	37.1	9.2	46.3
1971	38.6	9.4	48.1
1972	37.5	10.1	47.6
1973	35.0	10.1	45.1
1974	37.8	10.3	48.1
1975	36.5	10.2	46.6
1976	39.3	11.4	50.8
1977	39.2	11.6	50.8
1978	38.1	12.4	50.5
1979	37.2	13.7	50.9
1980	38.6	14.2	52.7
1981	38.7	15.0	53.6
1982	37.3	15.1	52.3
1983	39.0	15.5	54.4
1984	39.0	16.1	55.1
1985	39.1	16.9	56.0
1986	39.1	17.9	57.0
1987	38.4	19.8	58.2
1988	39.8	20.6	60.4
1989	39.4	22.0	61.4
1990	39.2	23.4	62.6

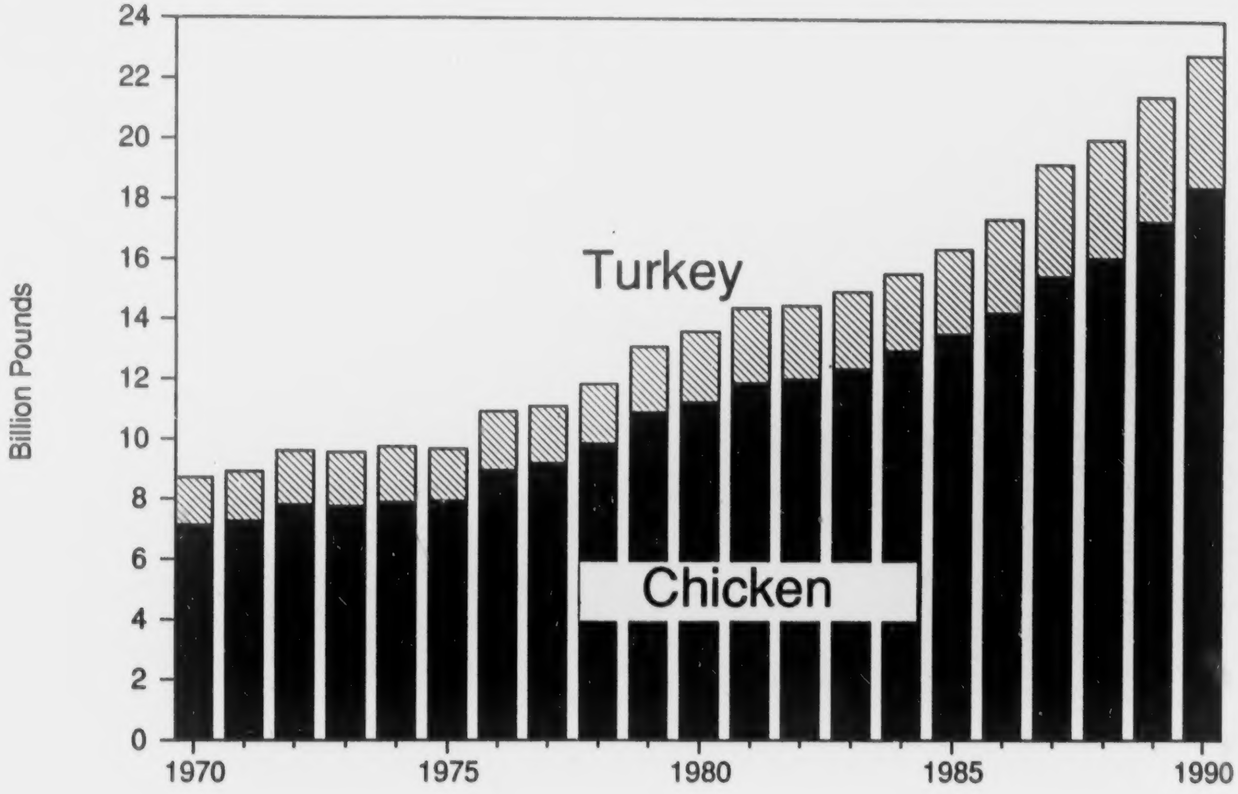


Total Red Meat Production

RED MEAT PRODUCTION
(BILLION POUNDS)

YEAR	BEEF	PORK	VEAL	LAMB AND MUTTON	TOTAL RED MEAT
1970	21.5	14.5	0.6	0.5	37.1
1971	21.7	15.8	0.5	0.5	38.6
1972	22.3	14.2	0.4	0.5	37.5
1973	21.1	13.0	0.3	0.5	35.0
1974	22.8	14.1	0.4	0.5	37.8
1975	23.7	11.6	0.8	0.4	36.5
1976	25.7	12.5	0.8	0.4	39.3
1977	25.0	13.1	0.8	0.3	39.2
1978	24.0	13.2	0.6	0.3	38.1
1979	21.3	15.3	0.4	0.3	37.2
1980	21.5	16.4	0.4	0.3	38.6
1981	22.2	15.7	0.4	0.3	38.7
1982	22.4	14.1	0.4	0.4	37.3
1983	23.1	15.1	0.4	0.4	39.0
1984	23.4	14.7	0.5	0.4	39.0
1985	23.6	14.7	0.5	0.4	39.1
1986	24.2	14.0	0.5	0.3	39.1
1987	23.4	14.3	0.4	0.3	38.4
1988	23.4	15.6	0.4	0.3	39.8
1989	22.8	15.9	0.4	0.3	39.4
1990	22.8	15.7	0.4	0.3	39.2

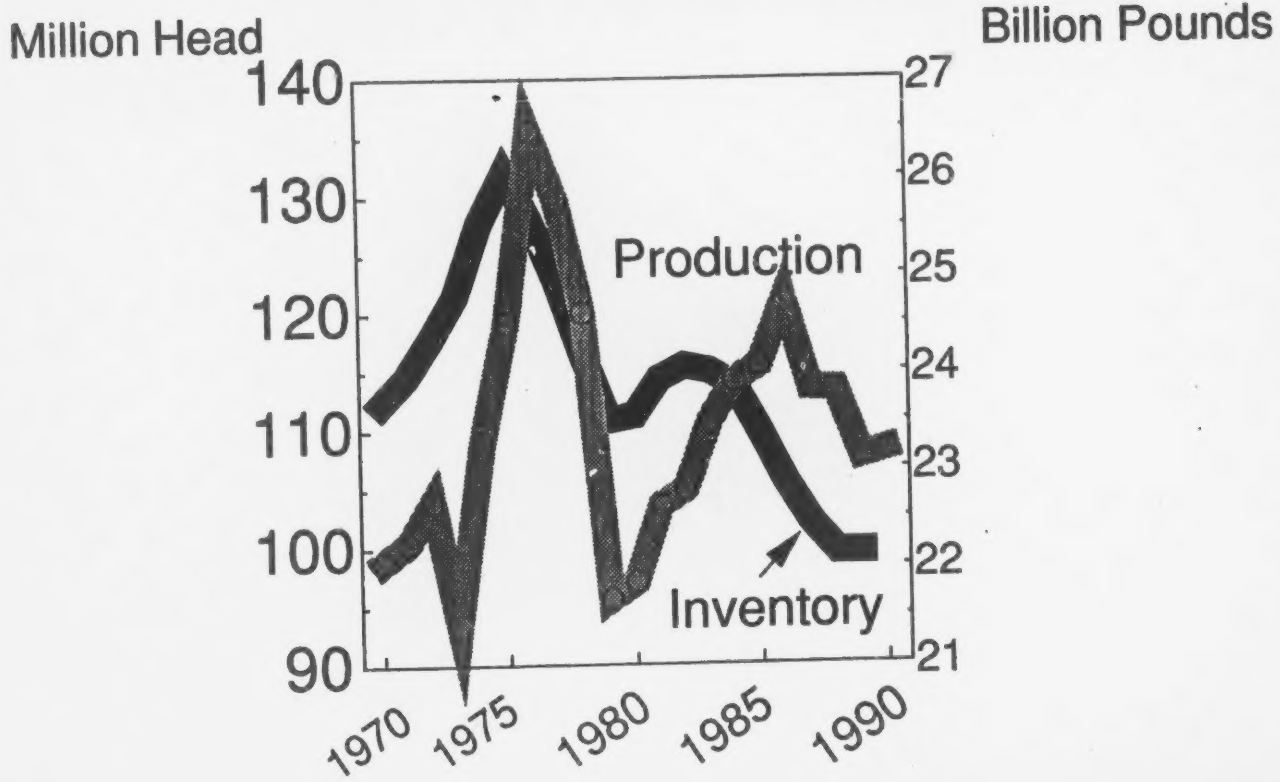
Total Poultry Production



POULTRY PRODUCTION
(BILLION POUNDS)

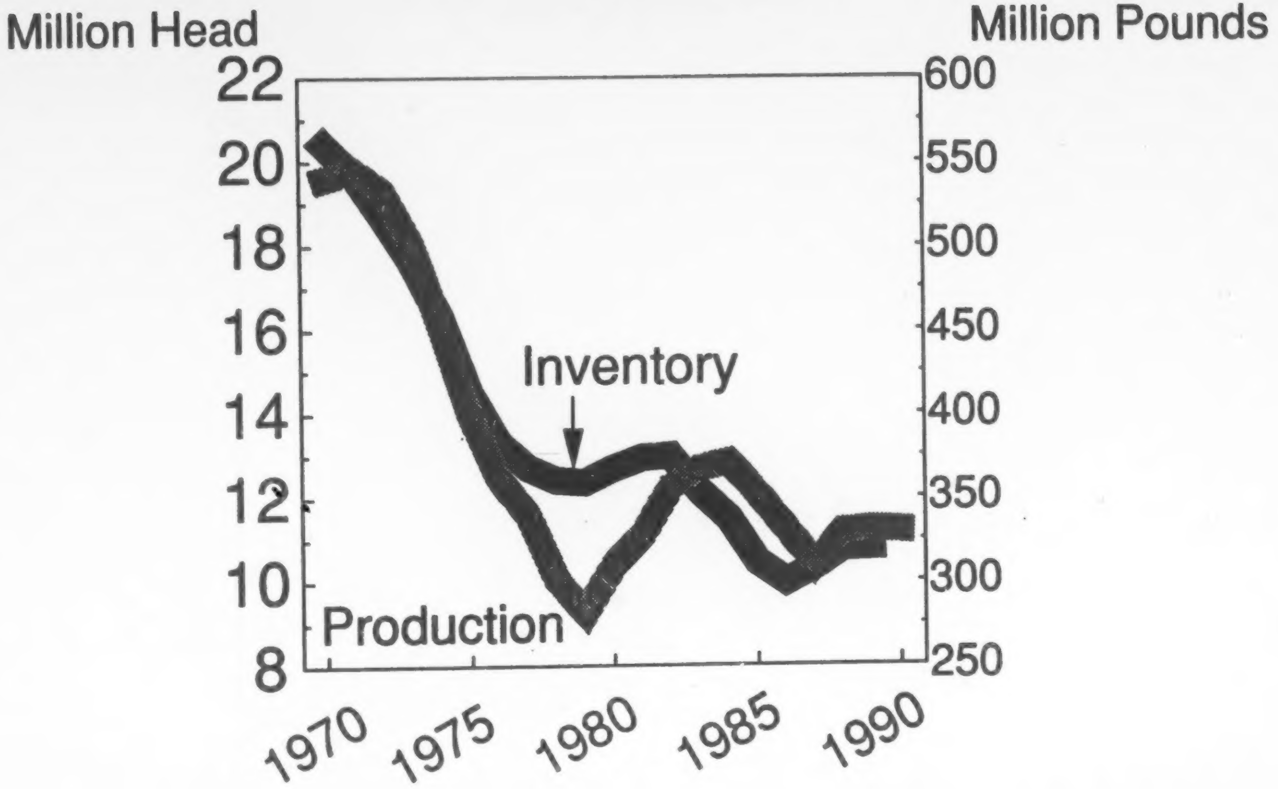
YEAR	CHICKEN	TURKEY	TOTAL POULTRY
1970	7.7	1.6	9.2
1971	7.8	1.6	9.4
1972	8.3	1.8	10.1
1973	8.3	1.8	10.1
1974	8.5	1.8	10.3
1975	8.4	1.7	10.2
1976	9.5	2.0	11.4
1977	9.7	1.9	11.6
1978	10.4	2.0	12.4
1979	11.5	2.2	13.7
1980	11.8	2.3	14.2
1981	12.5	2.5	15.0
1982	12.6	2.5	15.1
1983	12.9	2.6	15.5
1984	13.5	2.6	16.1
1985	14.1	2.8	16.9
1986	14.8	3.1	17.9
1987	16.1	3.7	19.8
1988	16.7	3.9	20.6
1989	17.9	4.1	22.0
1990	19.0	4.4	23.4

Cattle Inventory and Beef and Veal Production



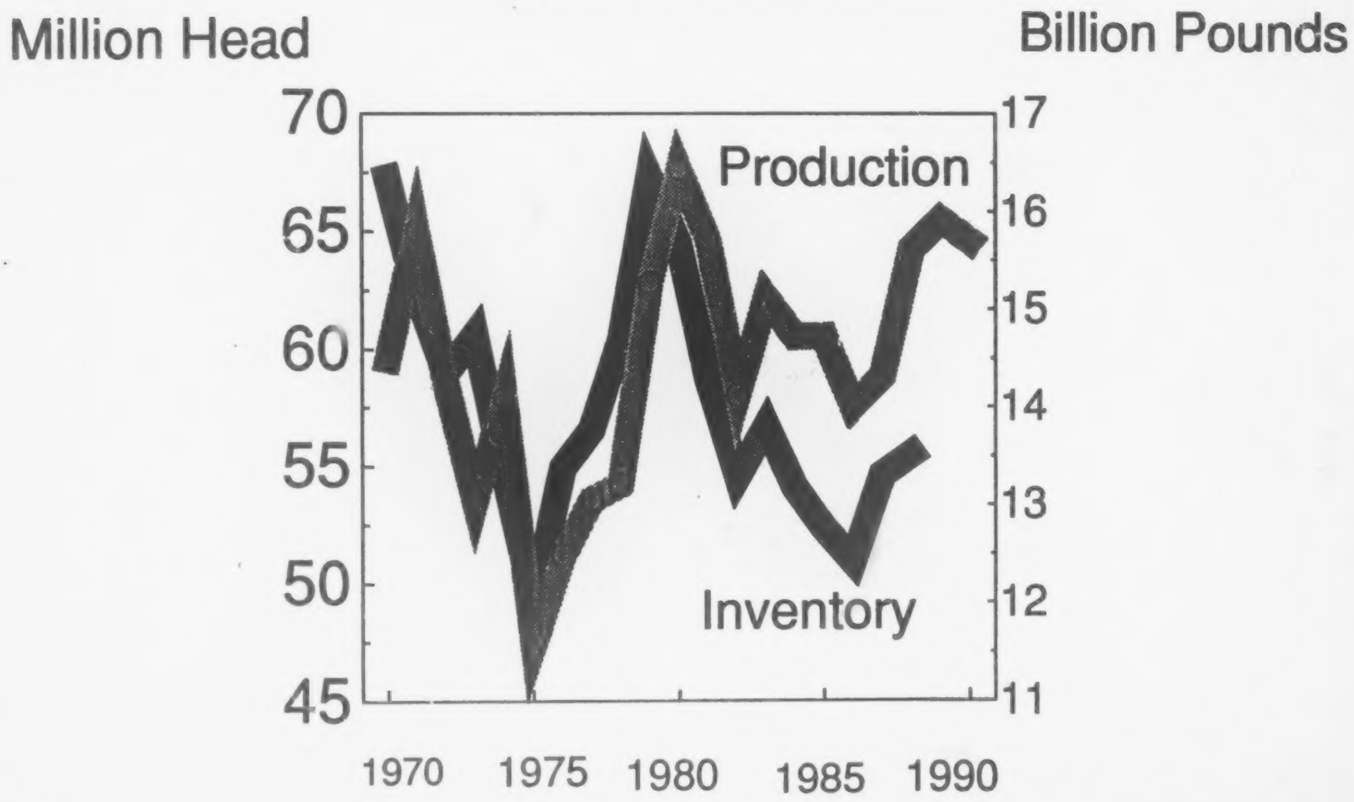
YEAR	CATTLE INVENTORY, JAN. 1 Million Head	BEEF AND VEAL PRODUCTION Billion Pounds
1970	112.4	22.1
1971	114.6	22.3
1972	117.9	22.7
1973	121.5	21.4
1974	127.8	23.3
1975	132.0	24.5
1976	128.0	26.5
1977	122.8	25.8
1978	116.4	24.6
1979	110.9	21.7
1980	111.2	21.8
1981	114.4	22.6
1982	115.4	22.8
1983	115.0	23.5
1984	113.7	23.9
1985	109.7	24.1
1986	105.5	24.7
1987	102.0	23.8
1988	99.5	23.8
1989	99.5	23.1

Sheep Inventory and Lamb and Mutton Production

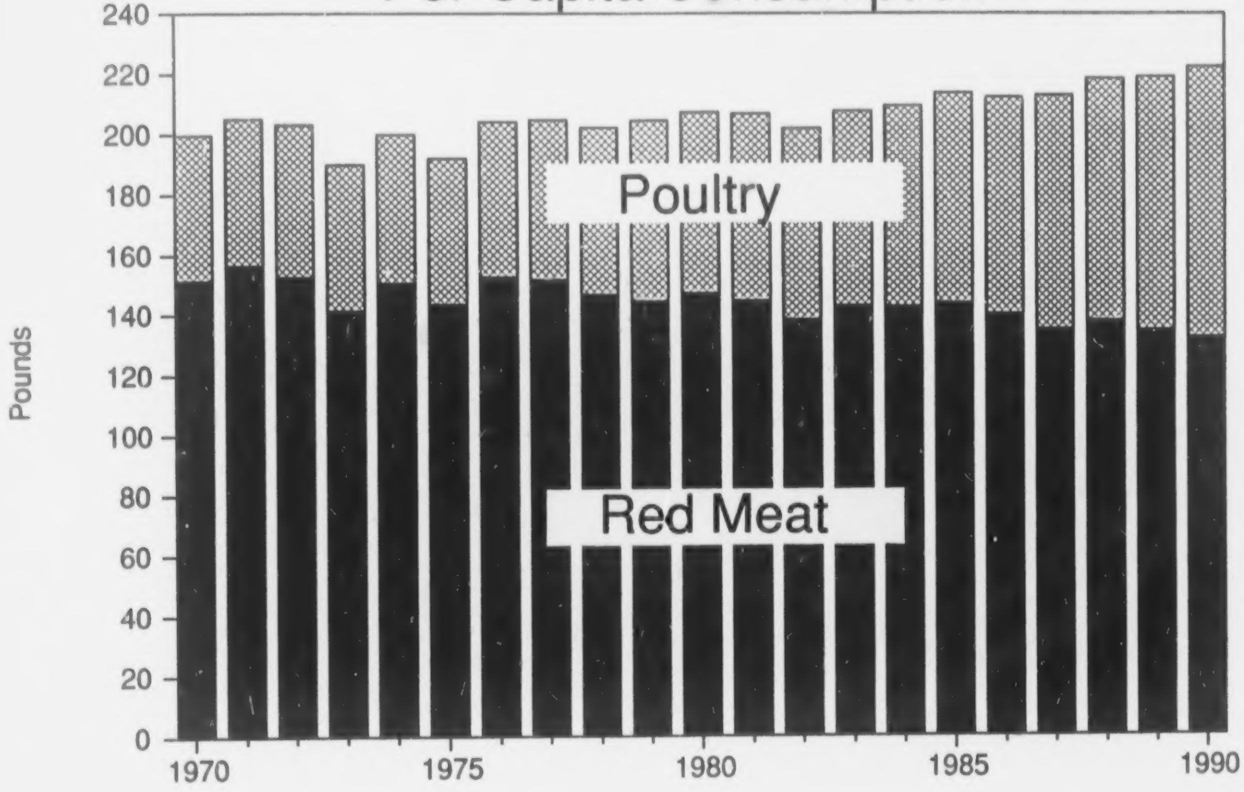


YEAR	SHEEP INVENTORY JAN. 1 Million Head	LAMB AND MUTTON PRODUCTION Billion Pounds
1970	20.4	0.54
1971	19.7	0.55
1972	18.7	0.53
1973	17.6	0.50
1974	16.3	0.45
1975	14.5	0.40
1976	13.3	0.36
1977	12.7	0.34
1978	12.4	0.30
1979	12.4	0.28
1980	12.7	0.31
1981	12.9	0.33
1982	13.0	0.36
1983	12.1	0.37
1984	11.5	0.37
1985	10.4	0.35
1986	10.0	0.33
1987	10.3	0.31
1988	10.8	0.33
1989	10.8	0.33

Hog Inventory and Pork Production



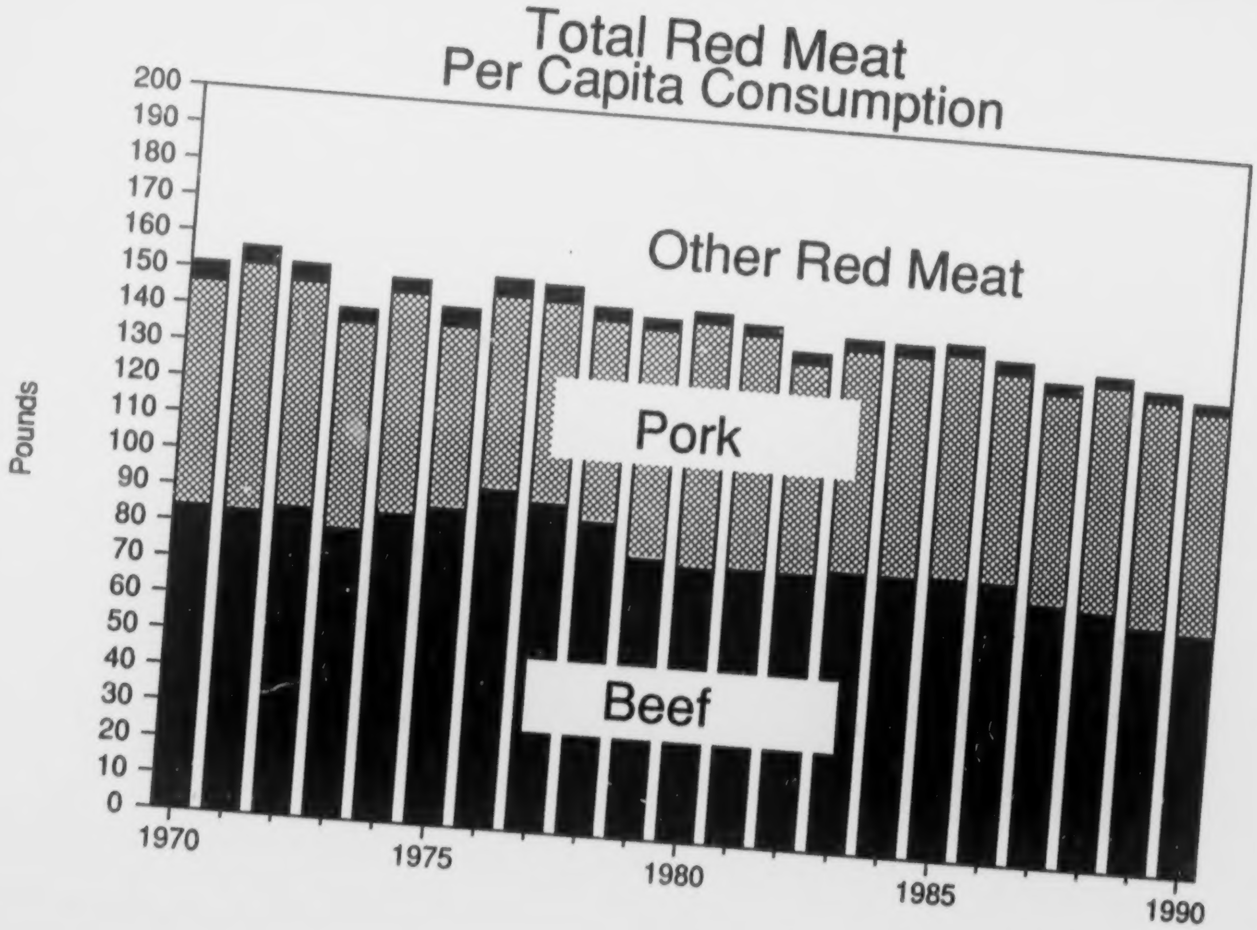
YEAR	HOG INVENTORY, DEC. 1 PRECEDING YEAR Million Head	PORK PRODUCTION Billion Pounds
1970	57.0	14.5
1971	67.3	15.8
1972	62.4	14.2
1973	59.0	13.0
1974	60.6	14.1
1975	54.7	11.6
1976	49.3	12.5
1977	54.9	13.1
1978	56.5	13.2
1979	60.4	15.3
1980	67.3	16.4
1981	64.5	15.7
1982	58.7	14.1
1983	54.5	15.1
1984	56.7	14.7
1985	54.1	14.7
1986	52.3	14.0
1987	50.9	14.3
1988	54.6	15.6
1989	55.5	15.9



Total Red Meat and Poultry Per Capita Consumption

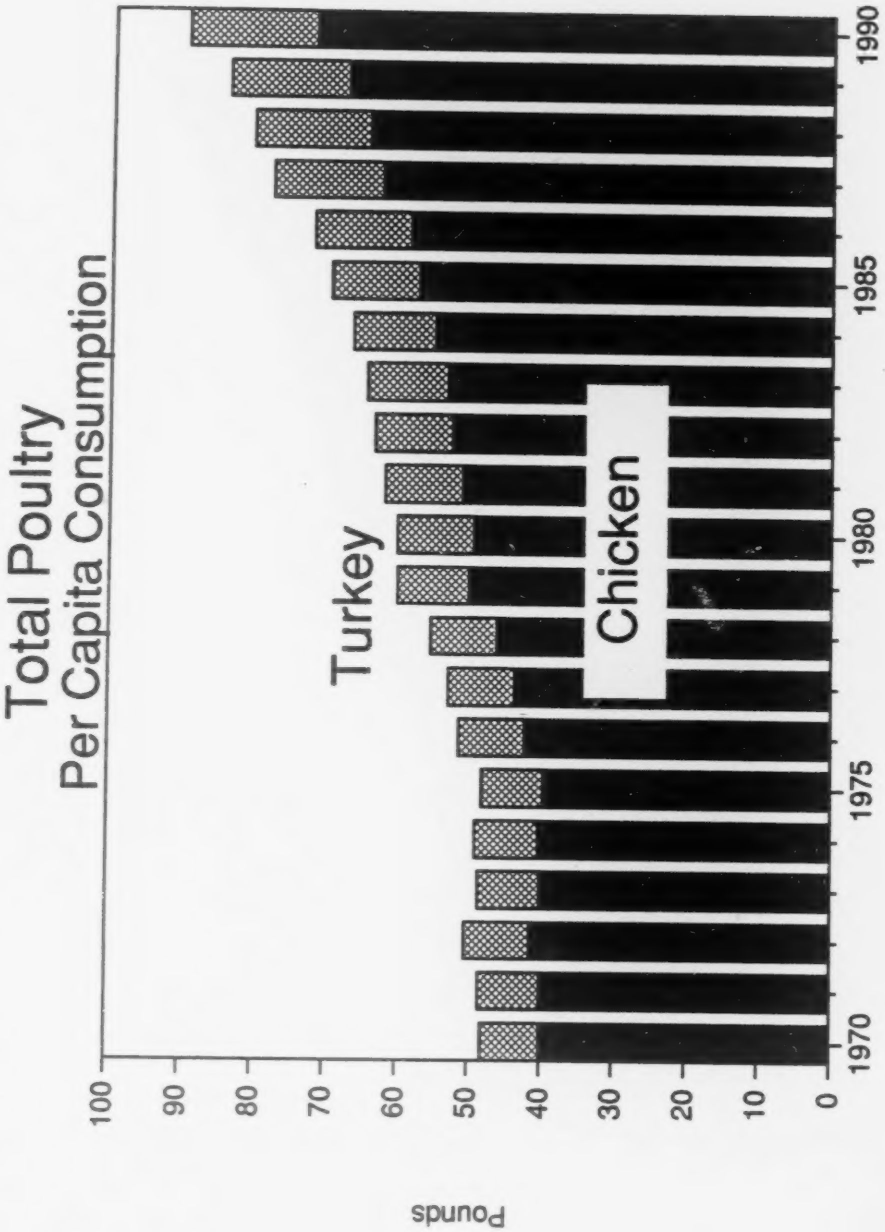
PER CAPITA CONSUMPTION
RED MEAT AND POULTRY
(POUNDS, RETAIL WEIGHT)

YEAR	RED MEAT	POULTRY	TOTAL
1970	151.7	48.2	199.9
1971	156.7	48.5	205.2
1972	152.7	50.5	203.2
1973	141.4	48.7	190.1
1974	150.7	49.2	199.9
1975	143.7	48.3	192.0
1976	152.7	51.5	204.2
1977	151.9	53.0	204.9
1978	146.8	55.5	202.3
1979	144.7	60.2	204.9
1980	147.4	60.2	207.6
1981	145.0	62.0	207.0
1982	138.5	63.5	202.0
1983	143.2	64.6	207.8
1984	142.9	66.5	209.4
1985	144.0	69.7	213.7
1986	140.2	72.0	212.2
1987	135.2	77.8	213.0
1988	138.0	80.5	218.5
1989	134.9	84.0	218.9
1990	132.6	89.8	222.4


Total Red Meat
Per Capita Consumption
Pounds
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1970
1975
1980
1985
1990
Other Red Meat
Pork
Beef

PER CAPITA CONSUMPTION
RED MEAT
(POUNDS, RETAIL WEIGHT)

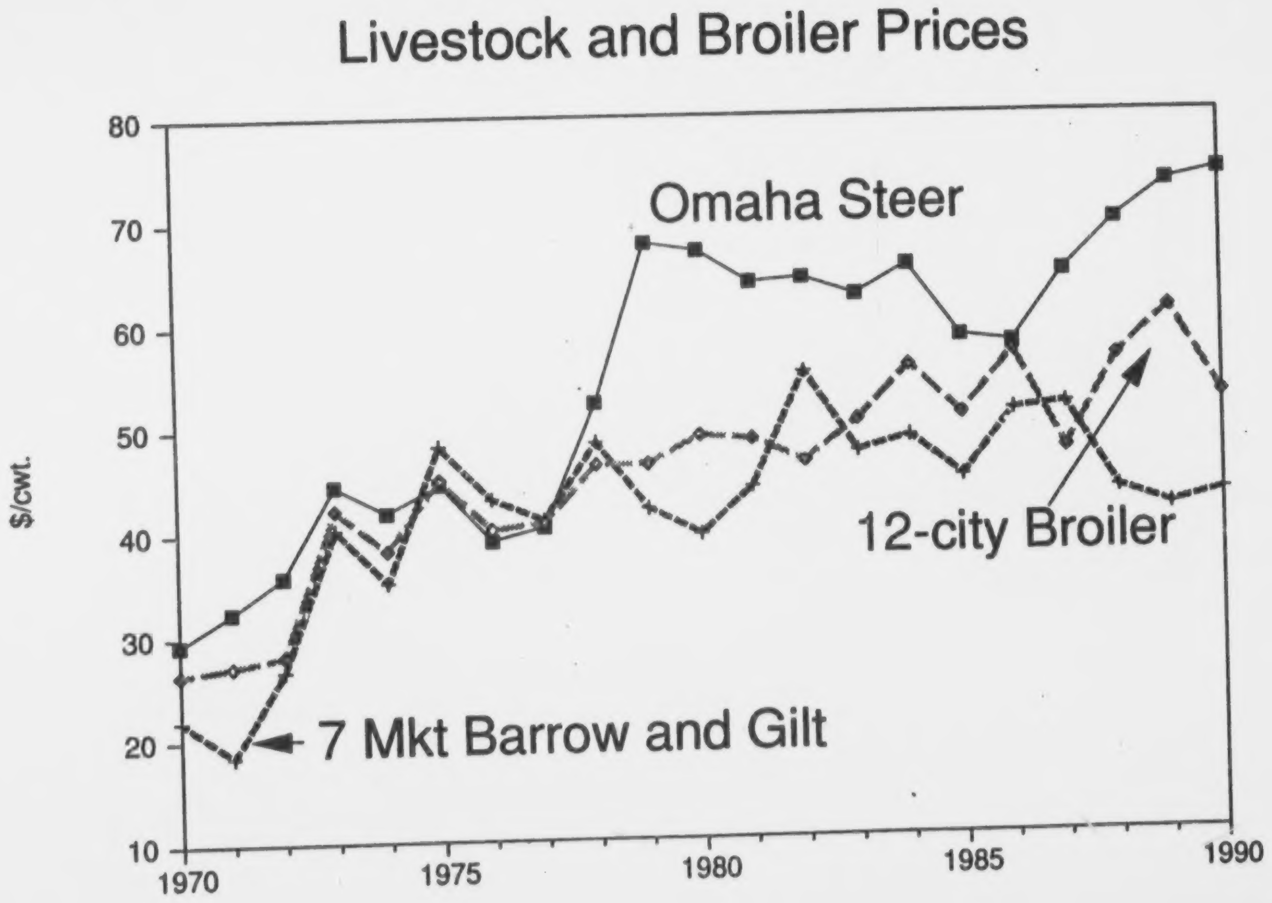
YEAR	BEEF	PORK	OTHER	TOTAL
1970	84.4	61.9	5.4	151.7
1971	83.7	67.9	5.1	156.7
1972	85.5	62.4	4.8	152.7
1973	80.5	57.0	3.9	141.4
1974	85.4	61.4	3.9	150.7
1975	88.0	50.5	5.2	143.7
1976	94.2	53.6	4.9	152.7
1977	91.4	55.8	4.7	151.9
1978	87.2	55.8	3.8	146.8
1979	78.0	63.7	3.0	144.7
1980	76.4	68.1	2.9	147.4
1981	77.1	64.9	3.0	145.0
1982	76.8	58.5	3.2	138.5
1983	78.2	61.9	3.1	143.2
1984	78.1	61.5	3.3	142.9
1985	78.8	62.0	3.2	144.0
1986	78.3	58.6	3.3	140.2
1987	73.3	59.1	2.8	135.2
1988	72.1	63.1	2.8	138.0
1989	68.7	63.6	2.6	134.9
1990	67.8	62.2	2.6	132.6



Total Poultry
Per Capita Consumption

PER CAPITA CONSUMPTION
POULTRY
(POUNDS, RETAIL WEIGHT)

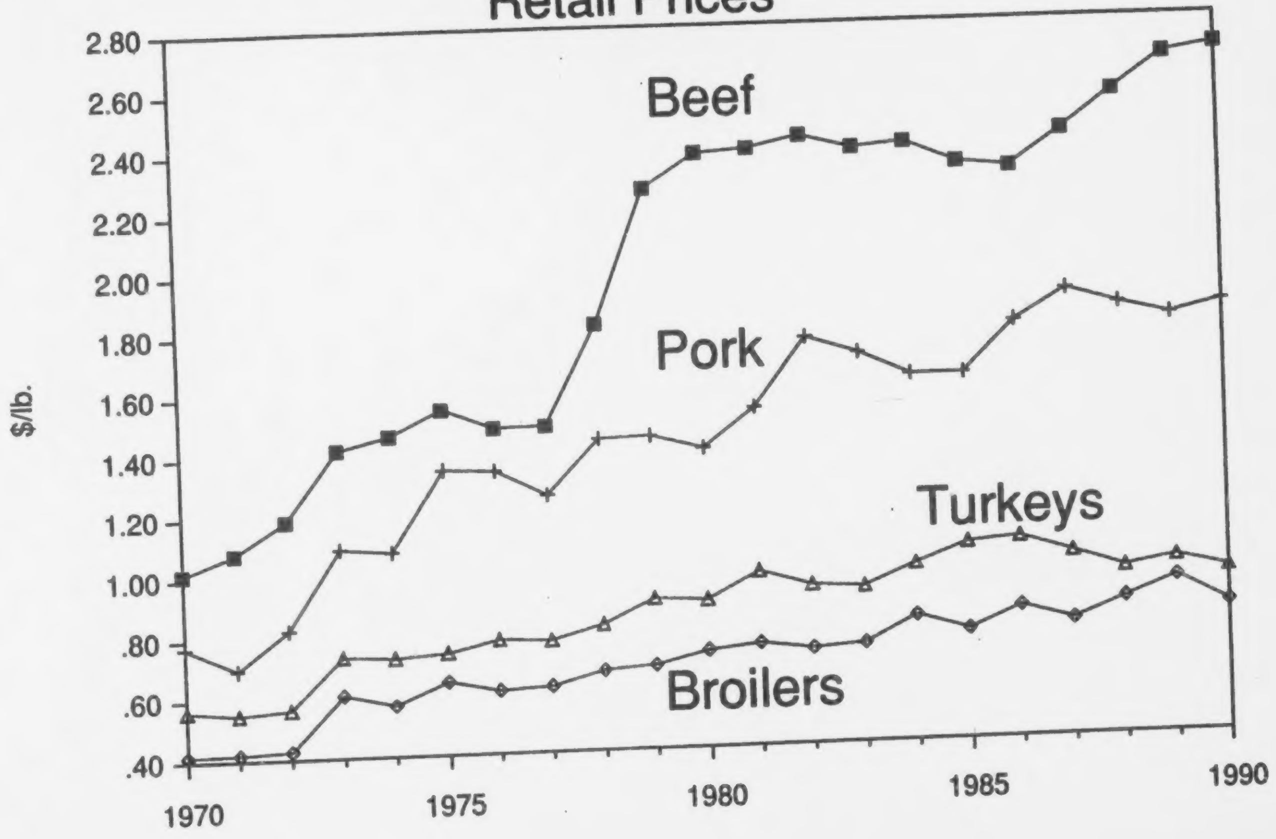
YEAR	CHICKEN	TURKEY	TOTAL
1970	40.1	8.1	48.2
1971	40.1	8.4	48.5
1972	41.5	9.0	50.5
1973	40.2	8.5	48.7
1974	40.4	8.8	49.2
1975	39.8	8.5	48.3
1976	42.4	9.1	51.5
1977	43.9	9.1	53.0
1978	46.4	9.1	55.5
1979	50.3	9.9	60.2
1980	49.7	10.5	60.2
1981	51.3	10.7	62.0
1982	52.7	10.8	63.5
1983	53.4	11.2	64.6
1984	55.2	11.3	66.5
1985	57.6	12.1	69.7
1986	58.7	13.3	72.0
1987	62.7	15.1	77.8
1988	64.5	16.0	80.5
1989	67.6	16.4	84.0
1990	72.2	17.6	89.8


Livestock and Broiler Prices
$/cwt.
80
70
60
50
40
30
20
10
1970
1975
1980
1985
1990
Omaha Steer
12-city Broiler
7 Mkt Barrow and Gilt

LIVESTOCK PRICES
(DOLLARS PER CWT.)

YEAR	CHOICE STEERS	BARROWS AND GILTS	BROILERS (WHOLESALE)
1970	29.36	21.95	26.42
1971	32.39	18.45	27.16
1972	35.78	26.67	28.14
1973	44.54	40.27	42.19
1974	41.89	35.12	38.25
1975	44.61	48.32	45.07
1976	39.11	43.11	40.21
1977	40.38	41.07	40.81
1978	52.34	48.49	46.35
1979	67.75	42.06	46.36
1980	66.96	39.48	49.06
1981	63.84	44.05	48.65
1982	64.22	55.07	46.41
1983	62.52	47.33	50.39
1984	65.34	48.69	55.55
1985	58.37	44.77	50.82
1986	57.74	51.19	56.90
1987	64.60	51.69	47.37
1988	69.54	43.39	56.30
1989	73.18	41.66	60.90
1990	74.25	43.00	52.50

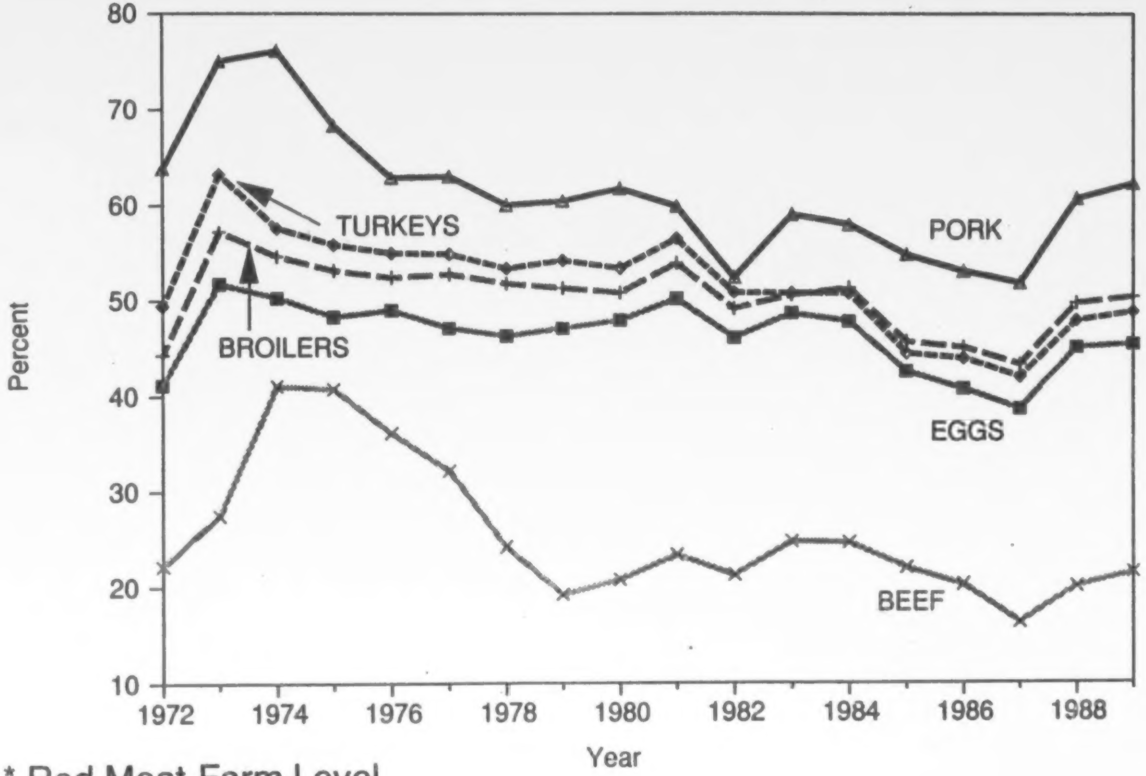
Livestock and Poultry
Retail Prices



RETAIL MEAT PRICES
(DOLLARS PER POUND)

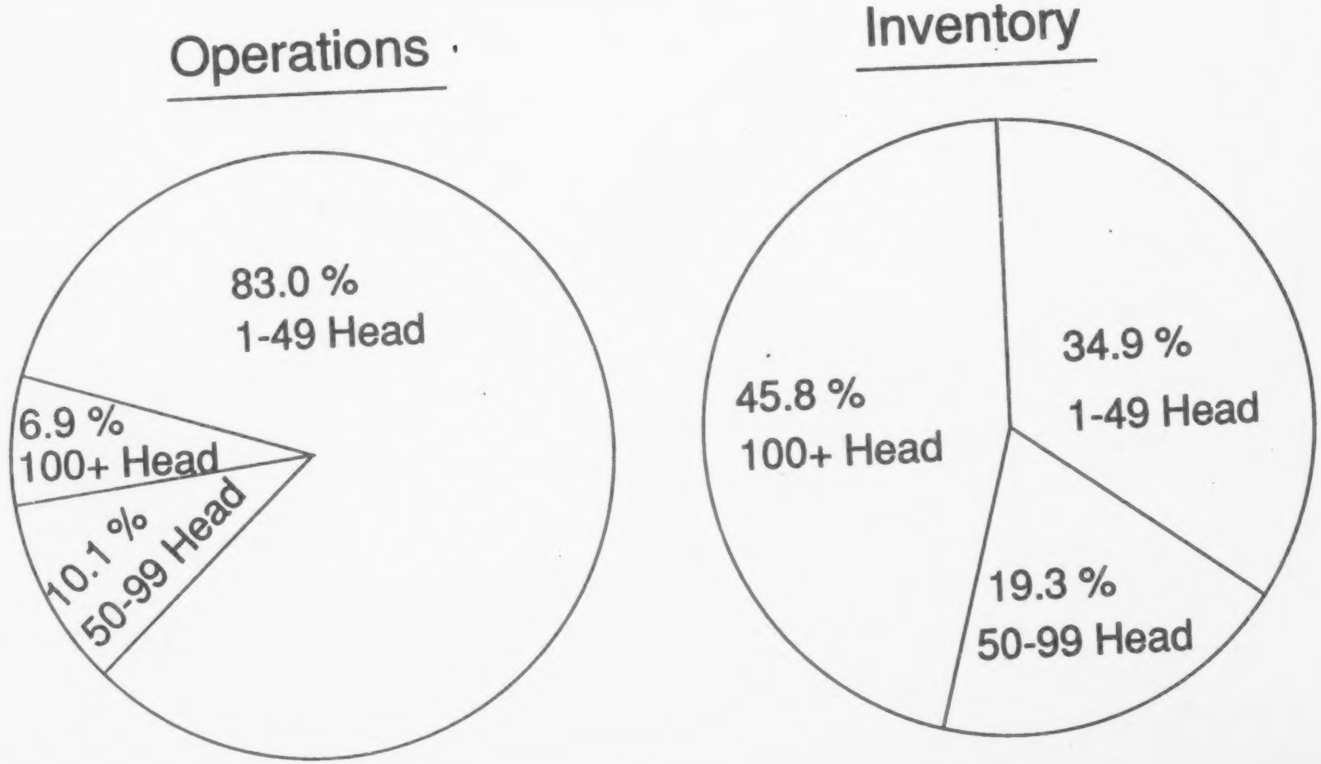
YEAR	BEEF	PORK	BROILERS	TURKEY
1970	1.02	0.77	0.42	0.57
1971	1.08	0.70	0.42	0.55
1972	1.19	0.83	0.43	0.57
1973	1.42	1.09	0.61	0.74
1974	1.46	1.08	0.57	0.73
1975	1.55	1.35	0.64	0.74
1976	1.48	1.34	0.61	0.78
1977	1.48	1.25	0.62	0.77
1978	1.82	1.44	0.67	0.82
1979	2.26	1.44	0.68	0.90
1980	2.38	1.40	0.72	0.89
1981	2.39	1.52	0.74	0.98
1982	2.43	1.75	0.72	0.93
1983	2.38	1.70	0.73	0.92
1984	2.40	1.62	0.81	0.99
1985	2.33	1.62	0.76	1.05
1986	2.31	1.79	0.84	1.07
1987	2.43	1.89	0.79	1.01
1988	2.55	1.84	0.85	0.96
1989	2.67	1.80	0.92	0.99
1990	2.70	1.84	0.83	0.95

Feed Costs As A Percent of Total Cost *



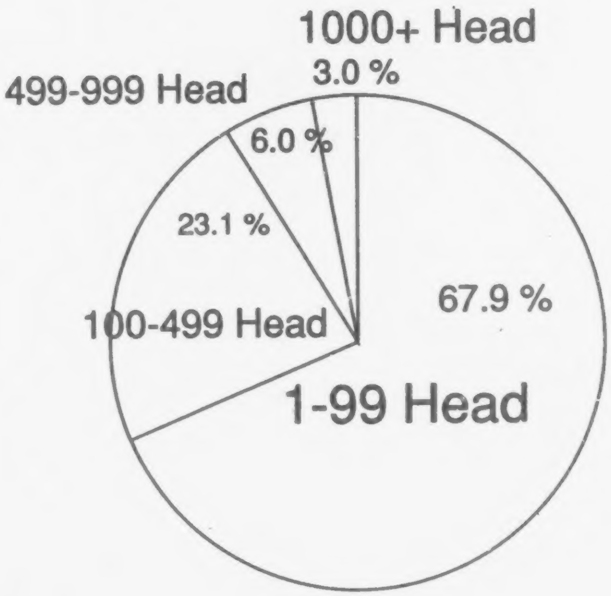
* Red Meat-Farm Level
Poultry and Eggs-Wholesale Level

Beef Cows: Percent of Operations and Inventory by Herd Size

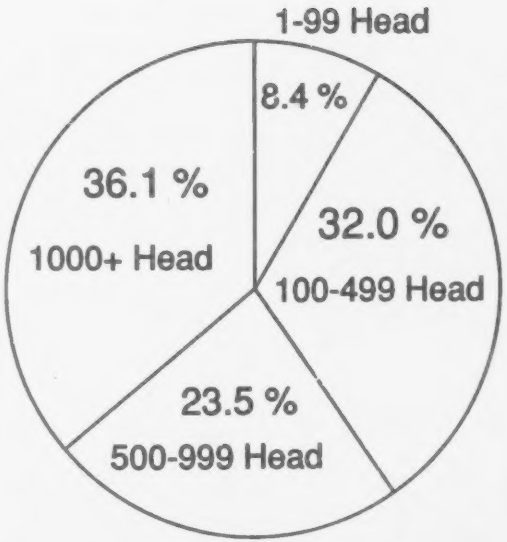


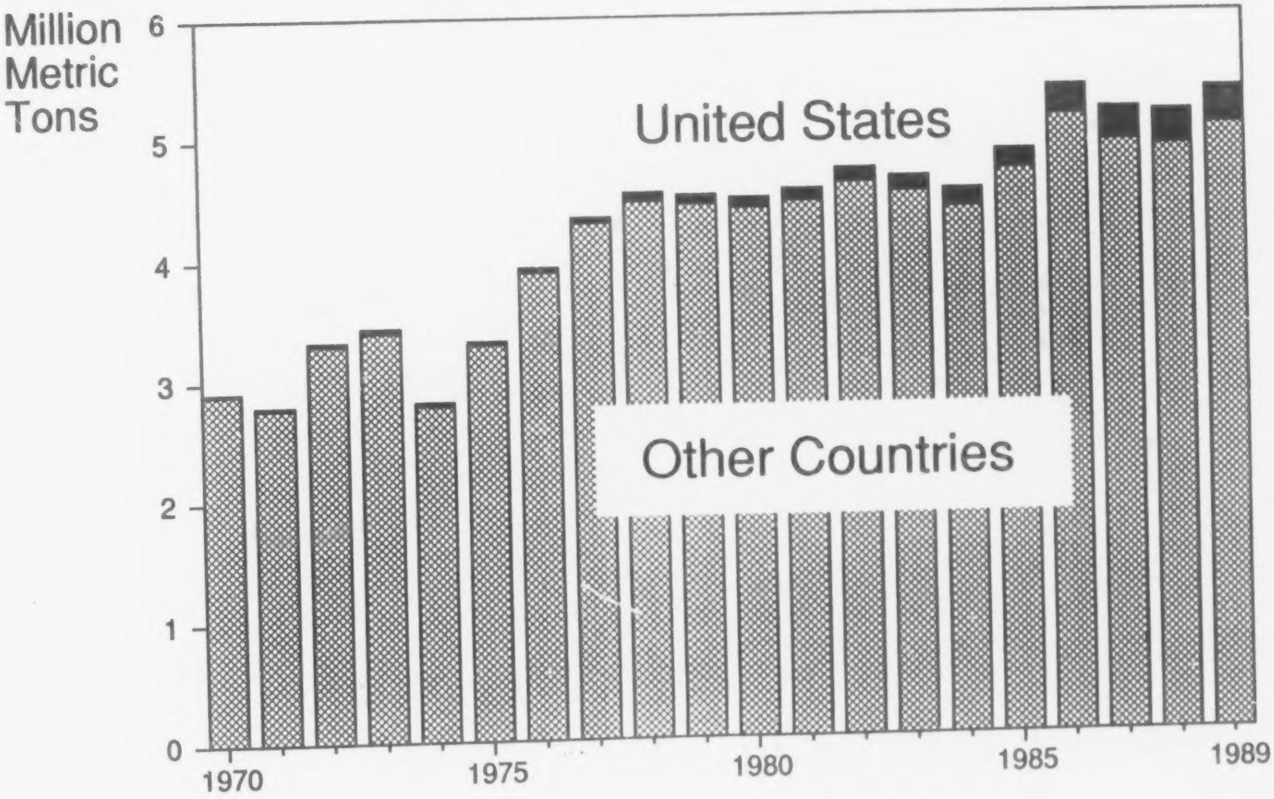
Hogs and Pigs: Percent of Farms and Inventory by Farm Size

Farm Size



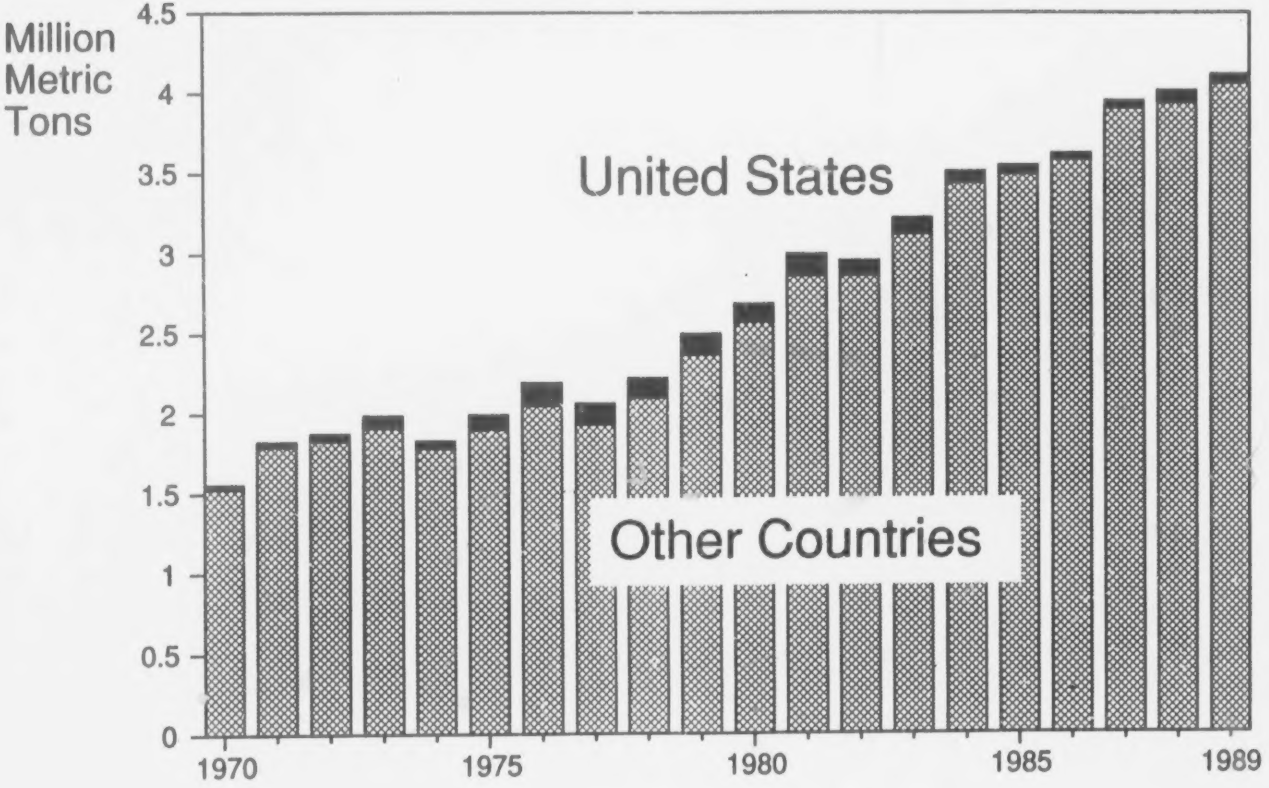
Inventory



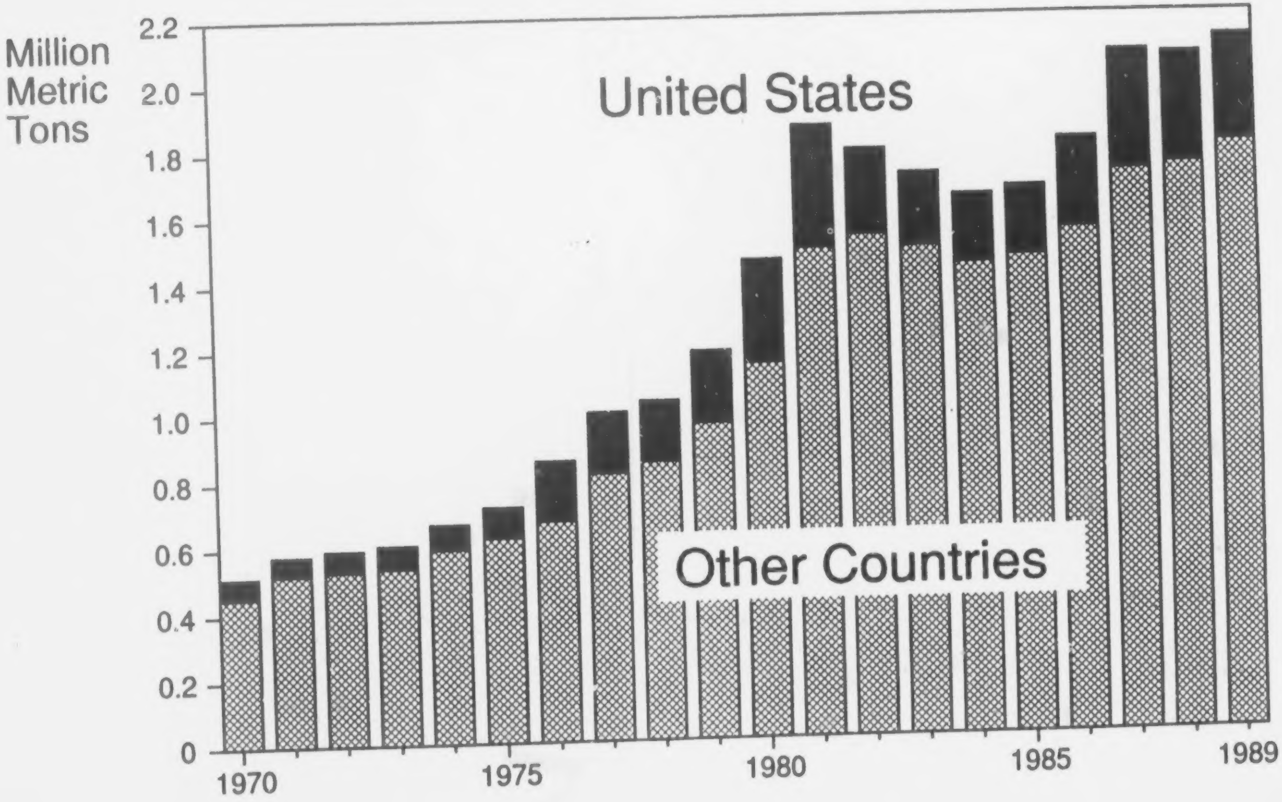


World and U.S. Beef Exports

World and U.S. Pork Exports



World and U.S. Poultry Exports



Senator **Baucus**. Thank you very much, Mr. Secretary.

With respect to emergency feed, as you know, the Department was earlier criticized because there was not enough feed to keep an animal alive; and the Department did change regulations to some degree to try to meet those criticisms. You said that the program may need review. Does it? And do you recommend legislative change so that the USDA can provide enough feed under the emergency feed program so that in a disaster the animals do have enough feed?

Mr. **Von Garlem**. Well, we are currently implementing this slight increase, the 25 percent increase in eligibility and eliminating the offset for crop insurance. This is for the 1989 program. And as soon as we get the regulations published, we will be implementing that program for 1989.

Mr. Chairman, I am really not prepared to provide specific recommendations because the Department has a comprehensive review of this whole issue under consideration. We would very much like to participate fully as the farm bill debate proceeds, but clearly the one thing that we do recognize is that we believe we would be derelict to consider livestock in a vacuum; because the rest of the bill does have such an impact on the sector.

Senator **Baucus**. But might the Department later recommend legislative changes?

Mr. **Von Garlem**. Yes, sir.

Senator **Baucus**. Can you give the committee some idea by what date the Department will be in a position to know whether the Department will recommend legislative change?

Mr. **Von Garlem**. Of course, Under Secretary Crowder has been designated the chair to provide all the summary, and I heard him presenting to a group the other day his desire to have by this fall, up to the Congress, the considerations and interest by the Department.

Senator **Baucus**. I appreciate that.

I would like you to convey the committee's interest back to the Under Secretary. We have to straighten this matter out this year due to the problems that recently occurred.

The second question goes to the effect of additional overseas sales, the effect that the additional foreign markets have on income and on price. Can you give this committee a feel of what the trends are and what is developing?

Mr. **Von Garlem**. Yes. I have in the prepared statement some of the trends that are under way, because we believe basically, as we look at the outlook, that as the general economy does expand, we believe that there really is a very large and strong possibility for increased markets overseas. And it would be a very real and important part of the livestock sector.

Senator **Baucus**. But to what degree is it affecting price first?

Mr. **Von Garlem**. I really cannot answer, Mr. Chairman. That goes beyond my area of expertise. We will be glad to try to provide it for the record.

Senator **Baucus**. OK.

[The material was subsequently provided and follows:]

Question. The second question goes to the effect of additional overseas sales, the effect that the additional foreign markets have on income and price. Can you give this committee a feel of what the trends are and what is developing?

Answer. U.S. livestock product exports have exhibited exceptional growth over the past 18 months and are now large enough to show a significant impact on prices received by ranchers and farmers. The following discussion is from a recent Cattle-fax study, estimating the impact of beef and pork exports on domestic cattle and hog numbers, production and prices.

DISCUSSION

CATTLE

The total export value of beef, beef offal and cattle hides increased 26 percent from $2.8 billion in 1987 to $3.5 billion in 1988. Beef and veal exports during 1988 were equivalent to the beef production from 1 million head of cattle slaughtered. Beef exports have a growing positive impact on the cattle industry and the value of beef and beef products.

Beef exports doubled from 1985 to 1988, increasing from 1.4 percent to 2.9 percent of domestic production. The export market now consumes 2.9 percent of U.S. beef production, 69 percent of hide production and 39 percent of offal production. The value of exports in 1988 was equivalent to nearly 10 percent or $75 of the average-per-head value of a slaughter steer.

Total 1988 beef exports increased the value of fed cattle by an estimated $2.83/cwt or close to $800 million for the industry in total. Total beef and beef byproduct exports of $3.5 billion last year were twice the value of U.S. imports of such products.

HOGS

The total value of pork and related byproduct exports in 1988 increased to nearly $383 million, up 81 percent from 1987 exports, and the highest level of the decade. Pork exports totaled 194 million pounds (carcass weight equivalent) in 1988; equivalent to about 1.1 million slaughter hogs.

Pork accounts for nearly 95 percent of the total value of a slaughter hog. Given the portion of each product exported last year, exports of pork, pork offals and lard represented 2.1 percent or $2.25 of the total value of each slaughtered hog. Pork and related byproduct exports, thus contributed an estimated $198 million to the combined value to all U.S. slaughter hogs in 1988.

In value terms, the United States remained a net importer of pork products in 1988. The value of imported pork was nearly $934 million, while U.S. pork and related product exports were valued at $382.5 million, or about 41 percent of total imports. Increased pork exports in 1988, however, narrowed the net deficit position in U.S. pork and pork products trade.

FEED GRAINS

In addition to the direct impact on cattle, hog, beef and pork prices, red meat exports were equivalent to 72 million bushels (1.829 million tons) of feed grains used during 1988. Feed grains exported in the form of beef and pork had a value of $164 million, based on average 1988 corn prices. This "extra" demand (and usage) added an estimated 3 to 4 cents to the price of every bushel of corn sold in the United States last year, according to Cattle-fax.

Approximately 3.1 million bushels of soybeans were exported in the form of pork in 1988. The total value of soybeans represented in 1988 pork exports totaled just over $22 million.

SUMMARY

Total 1988 beef exports increased the value of fed cattle by an estimated $2.83/cwt or close to $800 million for the industry in total. Pork and related byproduct exports, contributed an estimated $198 million to the combined value to all U.S. slaughter hogs in 1988. The value of feed grains (in equivalent corn use) exported in the form of beef and pork totaled $164 million.

Senator BAUCUS. I have one other question. You know, the Export Enhancement Program (EEP) provides that 15 percent can be used for livestock export enhancement. It is my understanding that 15 percent of EEP has not been used for livestock export enhancement. I am curious as to why this is so.

Mr. **Von Garlem**. Well, that is my understanding, but the why I will try to provide for the record.

Senator **Baucus**. OK, if you could.

Mr. **Von Garlem**. Yes.

Senator **Baucus**. Thank you very much.

[The material was subsequently provided and follows:]

Question. The Export Enhancement Program (EEP) provides that 15 percent can be used for livestock export enhancement. It is my understanding that 15 percent of EEP has not been used for livestock export enhancement. I am curious why.

Answer.

1. According to section 1128 of the 1985 farm bill:

"In the case of any program operated by the Secretary of Agriculture during the years 1986 through 1989, for the purpose of encouraging or enhancing commercial sales in foreign export markets of agricultural products or commodities produced in the United States, which program includes the payment of a bonus or incentive (in cash, commodities, or other benefits) provided to the purchaser, *the Secretary shall seek to expend annually at least 15 per centum of the total funds available (or 15 per centum for the value of any commodities employed to encourage such sales) for program activities to likewise encourage and enhance the export sales of poultry, beef or pork meat and meat products.*"

This section *did not mandate the Secretary to spend* "at least 15 percent", but required him to seek the spending of that amount. In addition, the key overall objective of the EEP is to combat subsidized exports and thereby affect the trade policy of the subsidizing countries, especially the European Community.

2. Under the Export Enhancement Program (EEP) from late 1985 through mid-1989, total bonus spending on all EEP commodities is estimated at about $2.5 billion. Of this amount, about $103 million in bonuses was spent on poultry meat sales of 159,000 tons (or about 4 percent of total EEP bonuses) with no EEP spending on beef and pork meat.

3. The lack of beef and pork sales under the EEP was due primarily to the very high cost of these programs compared with the poultry meat EEP. While the average bonus for the poultry meat EEP was about $650 per ton (about 75 percent of the sale prices), bonuses needed for the beef EEP were estimated at about $1,000–$1,500 per ton (about 120 to 150 percent of the sale prices). Estimates for bonus requirements for pork EEP's indicated similar costs to that of a beef EEP. Another reason why beef was not approved for an EEP initiative is that the types of beef exported by the United States and the EC are substantially different, with the United States exporting high quality beef while the EC ships lean beef.

Senator **Baucus**. Senator Kerrey.

Senator **Kerrey**. Mr. Von Garlem, I have just a couple of questions.

I am a little bit confused by some representations that you make on page 2 of your prepared testimony. I am not sure if I understand exactly what it is that you are saying. You say, that "the poultry and pork industries depend more on feed grains and soybeans than do cattle".

Mr. **Von Garlem**. We believe it is, because the diet almost from birth to expiration is based on the feed grains and soybeans. And of course, such a large portion of the red meat comes from pasture and forage other than feed grains. Of course, we believe that tendency will continue, that the red meat animal will spend more time on pasture, will go to feedlots at a heavier weight, and therefore would not have as large amount of input from the feed grains and soybeans. And of course, all of the tendencies toward desires for leaner grades, et cetera, would also lead that way.

Senator Kerrey. And then right in that same paragraph you indicated that "fluctuations in crop prices are still critical to profitability in the pork and poultry industries".

Mr. Von Garlem. Well, as we look back through the seventies and eighties as feed grain prices either went through the basement or the roof, as the case may be, it had a dramatic impact on these industries. And of course, one of our goals would be to try to smooth that out and——

Senator Kerrey. Try to stabilize those fluctuations?

Mr. Von Garlem. Yes.

Senator Kerrey. That is one of the goals that is certainly implied.

Mr. Von Garlem. Yes, sir.

Senator Kerrey. What can you tell me about your view of some of the conservation discussions that have been going on about the 1990 farm bill? I know there are, in addition to some range management and quality concerns, an awful lot of interest in water quality and non-point pollution. You reference environmental regulation as one of the concerns.

Can you give me a little more detail on what you would like to see perhaps in the 1990 farm bill?

Mr. Von Garlem. We cannot this morning, Senator, but clearly we see the view to the increased concerns clearly has to be considered as we debate the farm bill. It will not go away.

Senator Kerrey. Whose increased concern? The concern for environmental damage or the concern for environmental regulation?

Mr. Von Garlem. Well, I would hope that they are not mutually exclusive. I believe that it is all of our concerns, to help improve the environment. I would be the last person in the world that would be advocating regulations as the only means of doing it. But any incentives that we could provide, I believe, would be appropriate in leaning toward that direction of trying to encourage better protection of the environment.

Senator Kerrey. My concern is that, unless we get quickly to the question of how we are going to regulate so as to permit tough national standards but substantial local control, you might end up with the reverse. Or you might end up with the worst situation which is all central control, an attempt to regulate the whole thing from the top down. I am genuinely concerned about, in your testimony, an absence of emphasis on that conservation element. I do not know that it is intentional, but it concerns me because it seems to me that it is one of the things that we are going to have to get into immediately. I know there is going to be a lot of effort to impose some additional water protection standards in the 1990 farm bill. I am concerned about how we accomplish the objectives as much as I am about the objectives themselves.

Can you comment on the system that is referred to as normal crop acreage as one means of accomplishing increased flexibility in the 1990 farm program?

Mr. Von Garlem. Well, it is an option that is available. It was considered. It does give the farm a lot of flexibility.

It ran into some problems earlier when it was undertaken. I believe that it definitely should not be taken off the table for consideration. And it is one of the options that the Department is looking at very heavily as we look through each of the commodity programs and try to set forth the administration's objectives as we approach the farm bill.

Senator **Kerrey**. I would just observe that, for a diversified operation, the crop-specific base system is in conflict with other objectives that we have. I am pleased to hear that it is still on the table.

Mr. **Von Garlem**. Yes, well, of course, one of the concerns that we have right now with the existing basing situation is that the program tends to encourage farmers to produce rather than having the market produce. Obviously, that is something that we would like to have fully considered as a part of the farm bill.

Senator **Kerrey**. Thank you.

Senator **Baucus**. Thank you, Senator.

Senator Cochran.

Senator **Cochran**. Thank you, Mr. Chairman.

Mr. Von Garlem, I think your testimony has been very helpful to us this morning, particularly to put in perspective why some of these commodity programs are important to the livestock industries and how it is implied in those programs that one of the purposes is to try to help stabilize prices and to provide for an orderly relationship in marketing between and among all of the commodities as well as livestock products in our agriculture sector. People look at those commodity programs sometimes and think: well, this is to subsidize, prop up one segment of agriculture; and the rest of agriculture is sort of on its own.

I think that is an oversimplification, and you have dealt with that issue very thoughtfully in your prepared statement and in your response to some of the questions. It is something for us to keep in mind. If we did not have those programs, I am convinced that we would have a really up-and-down market situation, not just for those who are growing soybeans or corn or wheat or cotton and all the rest, but those who are in the cattle business, pork business, poultry business, catfish business, where we depend upon feed from these other commodities.

The fact is that you would have people going in and out of business whenever you had a downturn in the market or an upswing in the market. This way, with our commodity programs, they do play a very important role in their relationship to the other segments of agriculture.

I wonder, in connection with the comments about environmental concerns, if you do not agree with me that maybe some of the most important provisions of the next farm bill, as they relate to poultry and livestock producers, may be the provisions relating to consumer interests in food safety and inspection, environmental concerns, with ground water contamination, pesticide use, chemical use generally in agriculture, additives in feed, and the like? All of these things, in my mind, may go together to have a greater economic impact on the livestock producers in America than the commodity programs may have had in years past?

What is your reaction to that? And how should we try to recognize that consequence of action and take it into account? Not be governed by it, necessarily, but at least be influenced by it to some extent. What is your reaction to that?

Mr. **Von Garlem**. I believe sincerely we need to make sure we consider it and we keep it in mind as we are developing programs, because I believe the reality is if we do not, there are still going to be there; and we are going to have decisions without making decisions. And it is important to make sure that all of it is considered as we look at this, because we have had too much evidence already of the increasing interest by the consumer in not only livestock but all segments of food. It clearly has to be a part that we properly should consider.

Senator **Cochran**. I think one thing that we are looking at in terms of food inspection is expanding inspection at the Department of Agriculture, the authority to inspect, to include seafood. And one part of that bill that is being considered is a requirement that we put in the regulations for imported foodstuffs the same requirements that are in our regulations for our domestic producers and processes. I think for too long we have just ignored the obligation to protect our consumers from imported products. We have an obligation there as well.

There is a very small program for inspection that the Food and Drug Administration has, but they cannot get around to looking at everything that comes into the country. Yet, because we do have jurisdiction over our own domestic producers, we impose much greater and much more expensive and stringent requirements on them. It makes it very difficult for them then to compete, when we are trying, for instance, to get into the Japanese market more and more with our agricultural products, particularly beef and other things. If the Australians or the Canadians or the whoever do not have to comply with the stringent requirements that we do, they are going to undercut us; and they are going to actually sell more in those markets than we do.

Do you have a comment to make about that and what the Department might be saying to us as we approach the farm bill in that regard?

Mr. **Von Garlem**. I would be remiss to even try at this juncture to respond to that one. That one goes a little bit outside of my area of expertise. But I will make sure that Under Secretary Crowder does get those comments, include them in the part of our consideration as we are preparing to provide specific recommendations and responses as we start consideration.

Senator **Cochran**. Thank you very much for being here and helping us with the hearing.

Thank you, Mr. Chairman.

Senator **Baucus**. Senator Bond.

Senator **Bond**. Thank you, Mr. Chairman.

Mr. Von Garlem, you mentioned in response to a question from Senator Kerrey you are interested in more flexibility. I am hearing from farmers in my State a real desire to go back to normal crop acres system so that you can plant for the market on your farm.

Are you looking at this seriously? What is your assessment of what recommendations you might make with respect to that?

Mr. **Von Garlem**. Senator, I really would be premature to attempt to consider that, or address that this morning. I can say with total comfort that that is under consideration. It is one of the options. But there is a whole multitude of options. I would not want to try to preclude those, all of the totally thoughtful presentation of the administration's view on this whole area and all of the options that are available.

Senator BOND. You also mentioned in discussing about the cattle markets, you talked about the increasing feed prices and the impact on cattle. There are some producers who are interested in changing consumer demands for meat and saying that maybe we ought to be developing a segment of purely pasture fed beef.

What do you see as the prospects for that? How much demand is there for that grade of beef?

Mr. VON GARLEM. I cannot authoritatively respond to that. I will try to respond for the record on that.

Senator BOND. All right.

You mentioned here about the changes in the pork industry. I am interested in some of these things. Our committee traveled to Vermont on Monday [September 11, 1989]. We heard a lot of talk about bST, but I might ask you about porcine somatotropin.[1]

What do you see as the impact on that if that is approved by the FDA? Do you see this as effecting a change in hog production?

Mr. VON GARLEM. I will try to respond for the record.

Senator BOND. OK.

Let me shoot you one that really may be tough. Those are the easy ones.

Mr. VON GARLEM. I could not even pronounce it.

Senator BOND. pST, I guess you call it. And I gather that generally the goal of pST is to provide a leaner cut of pork and more effective meat production.

Do you have any comments or thoughts on the concentration in the packing industry? We are seeing and hearing concerns from our farmers and ranchers about that.

Mr. VON GARLEM. Well, there is no doubt that there is very strongly evidence that it is concentrating. There are obvious economic advantages. There are disadvantages. I believe it is a part of this consideration and needs to be considered.

It would go beyond my expertise. But we will try to make sure that, as Under Secretary Crowder develops this, we will make sure that this is part of the considerations.

Senator BOND. All right. Thank you, Mr. Von Garlem.

Thank you, Mr. Chairman.

Senator BAUCUS. Mr. Von Garlem, on the concentration issue, how extensive will the Department's investigation be?

Mr. VON GARLEM. I will assure you, Mr. Chairman, that it will be part of our considerations. And to the level——

Senator BAUCUS. That is not the question that I asked you.

Mr. VON GARLEM. I understand.

I do not know.

Senator BAUCUS. Is the Department at this moment conducting any kind of investigation into the effects of the concentration in beef packing?

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[1] In reference to the hearing at Montpelier, VT, Monday, September 11, 1989, on Dairy, Environment, and Conservation Issues, Part V, Preparation for the 1990 Farm Bill (S. Hrg. 101-259, Pt. V).

Mr. **Von Garlem**. Well, I know there is a committee that is set up that is addressing options for the livestock segment of the farm bill and to prepare and propose any kind of administration's view that we could develop to present for consideration.

Senator **Baucus**. And when do you think the administration might be in a position to make a recommendation?

Mr. **Von Garlem**. Well, on that specific issue, I do not know.

The response that I had gotten from the Under Secretary earlier this week, that he was—in his goal he wants to have all of these recommendations available to the Congress this fall.

Senator **Baucus**. All right, I strongly urge the Department to very extensively look into this. Again, I am not prejudging it, but I think it is an issue that very definitely must be examined carefully and not glossed over at all.

You know, the proof will be in the pudding. We will be able to determine, hopefully, at the time that the Department makes the recommendation, whether the Department has examined this fully or whether it has been glossed over.

I put the Department on notice that we very much hope that it is examined very carefully, because it is an issue that has to be addressed.

Mr. **Von Garlem**. Thank you, Mr. Chairman.

Senator **Baucus**. I also assume that the Department's recommendations will include something so as not to repeat the dairy buy-out fiasco that we had not too long ago.

Mr. **Von Garlem**. I believe the record would show that the Department was not wildly enthusiastic about that particular piece of legislation when it was being developed. But, yes, clearly it is an issue that we have to, because if we go into something that is that dramatic, that is such a dramatic production adjustment, it does have impacts on other segments of the industry; and clearly we have to consider them.

Senator **Baucus**. What is the Department's assessment of the checkoff program? Has it worked, not worked, to what degree?

Mr. **Von Garlem**. I do not know.

Senator **Baucus**. Well, I will tell you that the producers in my State think. They feel that it has worked. They very much appreciate the program.

Thank you again, Mr. Von Garlem.

Senator Bond, do you have any other questions?

Senator **Bond**. No, Mr. Chairman.

Senator **Baucus**. Thank you.

Mr. **Von Garlem**. Thank you, Mr. Chairman.

Senator **Baucus**. Our next witness is Professor Emeritus Glenn Grimes, Department of Agricultural Economics, University of Missouri.

Senator **Bond**. Mr. Chairman, I might just say by way of introduction, that Professor Grimes has certainly been a leader in our State and recognized throughout the country as an expert in the fields which he is to address. He also was kind enough to enable my legislative assistant to obtain his master's degree, I guess, so he was charitable as well as a leading scholar.

We have many connections with Professor Grimes and are delighted to be able to welcome him to the committee today.

Mr. **Grimes.** Thank you, Senator.

Senator **Baucus.** I must say, Professor Grimes, that that recommendation was corroborated yesterday when several Agriculture Committee staff were preparing me for this hearing. They said, you will very much like the professor's testimony; he is a very knowledgeable man, probably one of the best.

Mr. **Grimes.** You are very kind.

Senator **Baucus.** You are well recommended.

Mr. **Grimes.** We are very pleased to have the opportunity to be here.

Senator Bond, we are also pleased that Dr. Robert Young is a graduate of our department, also on the committee staff. And certainly we are happy that Dan Cassidy is doing what we think is an excellent job with you.

STATEMENT OF GLENN GRIMES, PROFESSOR EMERITUS, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF MISSOURI-COLUMBIA, COLUMBIA, MO

A STABLE PRICE AND SUPPLY OF FEED GRAIN IS ONE OF THE MORE IMPORTANT THINGS THAT CAN BE OF ASSISTANCE TO LIVESTOCK PRODUCERS

Mr. **Grimes.** Mr. Chairman, I am going to spend most of my time strictly talking about producers. I would point out to you and remind you of the thing that has already been mentioned two or three times. That is that a stable price and supply of feed grain is one of the more important things that can be of assistance to livestock producers.

CONCENTRATION OF PACKING IN THE BEEF INDUSTRY

I would also point out to you that you discussed the concentration of packing in the beef industry. There are people raising some of the same questions about that possibility. We have not developed as far in the pork industry. But there is that possibility that somewhere in the not too distant future you will have the same discussion as far as hog slaughter.

CONCENTRATION AS FAR AS PRODUCERS ARE CONCERNED IN THE SWINE INDUSTRY

I also want to visit with you just very briefly about concentration as far as producers are concerned in the swine industry. This is something that I think you are going to hear substantially more about in the next few years. Based on work that we have done at the University of Missouri, we think that the larger producers will. If you look at the proportion of the hogs marketed by producers of 1,000 head marketed a year or more, that roughly doubled between 1978 and 1986.

Now, because of some kind of a change as far as the economic conditions that they are under, that does not appear to have changed very much in the last 2 years. So, we think that the structure, as you look at the production segment of the industry, is not too different than 2 years ago. However, we would point out that there are economies of scale as far as size of hog producers. We are also seeing some of the same characteristics developed in hogs that we have in poultry.

And, Senator Bond, that is of concern to people in our State as well as much of the Midwest. As one would try to compare the two industries at the present time, I think I can just stand flat-footed and tell you that there are some similarities, and then there are some differences.

One of those similarities, of course, is if you are looking at factory-like production. We are developing a factory-like production in hogs. There are economies of scale here. We do not think you have to be a national farm with 30,000 sows to reach the physical efficiencies. Probably a producer of 5,000 head or maybe even 3,000 can reach most of the physical efficiencies.

Then some of the economic efficiencies as far as buying and selling, those may just continue to go up with size regardless of what the size is.

WE ARE CONCERNED THAT OUR AVERAGE HOG PRODUCER IN THE MIDWEST IS NOT COMPETITIVE

We are concerned that our average hog producer in the Midwest is not competitive, as we look at the state of the art as far as hog production is concerned. A study done in Iowa by Iowa State University just this past year suggests that only 20 percent of the Iowa producers are really competitive, as we look at the state of the art in hog production today.

I would guess that we probably could say basically the same thing about our State as well as probably Illinois, Indiana, Ohio, Nebraska, what have you, as far as the typical hog producer that we do have.

So, we do see much change occurring. We have some contracts developing but nothing like the poultry industry at this point.

Recent work that we are working on at the present time suggests that 10 to 12 percent of the hogs are under some kind of a production contract, with a relatively small portion of that being an integrated type contractual arrangement of ownership.

STRUCTURE OF THE HOG INDUSTRY

So, if I might summarize just very briefly about the structure of the hog industry, we see the size of hog producers continuing to grow quite rapidly over the next several years unless there is some kind of legislative limitations on that nationally. We are seeing some individuals States making attempts to legislate some of these kinds of things.

Our opinion at the present time is what they are likely to succeed in doing is moving those units to States that are willing to accept them, regardless of size or how they are organized as far as ownership is concerned.

DIFFERENCES FOR PORK AND BEEF

Looking very briefly at the differences for pork and beef, I refer you to the back of my prepared statement that will show you that. Let's look at one of those at the present time. It would be the second chart that you would have. The chart has a title of Per

Capita Consumption of Pork and Deflated Retail Prices, which would be the second chart or figure that you have.[2]

This is what we call a scatter diagram, quite simply, a way of looking at what is happening to the demand for a commodity.

We want to point out very quickly, we can tell you with this, if our data is correct, whether or not the demand for pork has changed. We cannot tell you why. So, all it tells you is the price of pork, deflated, we have used that so that we take inflation out, on the vertical axis, and the supply of pork per capita on the horizontal axis.

If you will notice, in 1975, if you draw a straight line across to the vertical axis, we had a price somewhere in the 83, 84 cents per pound for all of the composite cuts of a pork carcass. Our supply of pork that year was a little over 50 pounds.

If you will move down now and locate 77 there, you will notice that the price is below 70 cents and the supply is up above 55 pounds.

Now, notice what has happened from 1980 across to 1986. And we move from the right of this chart to the left. When that happens, and especially if it moves down, that means a reduction in the demand for pork.

Again, we do not know why there was a reduction in the demand. We think there were a number of things. Health concerns probably was one of the large ones; larger supply of competing meats, especially poultry, at a lower price.

But I would point out to you that 1987 and 1988 have moved back to the right and up some. So, we have some indication that something has stabilized and actually increased the demand for pork during a couple of years. It is timed very closely with the increased moneys to do promotion with.

Now, how much we can attribute to that, we do not know; but it probably was at least one of the factors.

So much for the pork industry. I will try to respond to whatever questions you have.

We do have a 3- to a 5-year cycle in pork production. We probably will go through one of those in the next 5 years. The 1988 drought did distort the cycle we are in at the present time. It probably will extend it some. So, as we look at the next couple of years, pork prices, we do not see those as the kind that pork producers will smile all the way to the bank with.

The very efficient producers will have some profits. The average producer probably will close to break even as we look at 1989 and 1990, even with stable and relatively low grain prices.

CATTLE INDUSTRY

Now for the cattle industry, two things I wish to mention as far as the cattle. That is on your third chart. As you look at again the producer segment and the things that probably will influence their well-being, in the real short run, it will be these two things: that is the change in the rate of change of the cattle herd or, if you please, the cattle cycle, as we go from increases or decreases or even change the rate of those increases or decreases, it impacts our slaughter substantially.

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[2] See pp. 63 to 68 for charts referred to in the testimony of Glenn Grimes.

Remember that slaughter is about 2½ percent, or the inventory is about 2½ times the size of an annual cattle and calf slaughter. A 1-percent change in the inventory with all other things held constant will increase or decrease cattle and calf slaughter about 2½ percent.

This is one of the reasons that we go from feast to famine in the cattle industry as we change beef supplies quite sharply as we are influenced by economic conditions and increase or decrease the herd.

We are just finishing a cycle. It has been a different cycle than normal. If you will look at the next chart, which says, Inventory of Cattle and Calves by Cycles, U.S. January 1, what we have there is the production cycles, starting back in 1928. If you will notice the one that is the top one, at the right of your chart, it started in 1979, we think we probably are ending that this year, either January 1, 1989, or January 1, 1990, and that we probably will start a slow increase if we can maintain the economic conditions as good as they are at the present time. We think there is some chance that that can certainly occur.

So, we see the build phase of a cattle cycle in the next few years. And generally through most of the build phase of a cattle cycle, the general price level is quite good.

Cattle feeders will not probably fair as well in the next 5 years as cow-calf producers will.

DEMAND

Now, let us look at demand. That is the other major point that I mentioned that I think will be very influential in what kind of conditions the cattle industry will experience in the next 5 years. The same thing happened to beef that happened to pork during the eighties. Notice that if you look at the seventies, they are up to the right, and the eighties are down and to the left.

Something again has stabilized the demand for beef in 1988 and 1989. Whether or not the promotion is the major factor there, we do not know.

I have substantial disagreement with the findings of a number of people of why the decline in demand for beef. I notice that a blue ribbon panel for the National Cattlemen's Association has just concluded that practically all of this decline was due to a lower price supply of competing meats. When someone tells me that, they are suggesting to me that none of the publicity, none of the recommendations of the medical profession, and those kinds of things, as far as concerns about health, what cholesterol will do to us, and so forth, that that has had any significant impact on the demand for beef in the last several years. And in my opinion, when one makes that statement, he is not a very keen observer of the cattle industry.

What we will have happen to beef demand in the next few years certainly we do not have the ability to predict. But being as we have had 2 years of near stability at least, that give us hope that there is some chance of actually growth in demand. I would point out, though, the poultry industry has certainly a very optimistic situation going for them at the present time.

POULTRY

If you will look at my last chart, which is poultry, and I only have the eighties on here, I apologize for not having more than that. I thought we had more than that in our printer, but we did not. But notice what has happened during the eighties in this particular chart. It has moved sharply to the right.

And if you will note from 1983 to 1984 we not only increased the supply of poultry, we increased the price. Then we seem to stabilize in 1985 with 1984, then we move back up again in 1986, move sideways again in 1987, and then up again in 1988. And the current data would suggest that 1989 will break that trend of up one and then stability the next, and that we are going to have at least 2 years consecutively with substantial growth.

COMPETITION FROM BOTH PORK AND POULTRY IN THE NEXT FEW YEARS WILL BE QUITE KEEN

So, the competition from both pork and poultry in the next few years will be quite keen. How much competition from the pork industry, and I do mention it in my paper but I did not in my discussion, as far as the new technology that you have already mentioned, Senator, you mentioned it in relation to dairy as well as pork, and I will respond to that. At this point, I see that mostly positive for the pork industry. There will be some short-run problem with it, but as I look at the longer run, it will both decrease the cost of production as well as increase the quality of the product by making it more lean.

Certainly, as you all know, how lean a piece of meat is these days is relatively important as far as the consumer is concerned. Of course, that is one of the challenges that the cattle industry has with the age of animals that they are dealing with, is to keep it lean and keep it palatable at the same time. For me, that should be one of the very high priorities of the beef industry. There is no way that they can be competitive in cost of production.

Remember poultry prices in 1988, retail prices only 30-some percent of the price of beef. Pork is about 30 percent lower cost than beef. So, the probabilities that we can develop technology that will reduce the supply that much, or the price that much is not very high. Consequently, beef is consumed not because it is a low cost protein; it is consumed because it is liked and a prestige item.

We certainly need to work to keep it as that.

Poultry, at the present time, demand growth in 1989 is near double-digit in percentages as I measure it. Whether that can continue over the next several years is a question. I did notice with interest that Don Tyson of Tyson Foods in Arkansas suggested in an article some time back that possibly we would see some slowdown as far as the demand for poultry is concerned.

I would point out to him that the last 2 years is counter to that trend. But if a significant part of that poultry demand growth is due to growth in the fast food industry, as many of us think it is, then Mr. Tyson probably does have a point that may come to be true. And that is that we will not see the continued growth in demand that we have as far as poultry is concerned.

I will be happy to respond to whatever questions you have.

Senator BAUCUS. Thank you, Professor Grimes.

In addition to your other recommendations with respect to a beef producer, that is, produce a lean, palatable product, what other advice do you have for the average cattleman, the average cattle rancher in the country? What can he do? How can he reshape his operations based upon your projected price and inventory projections?

Mr. GRIMES. Well, I think I would have two suggestions. Certainly, using the technology and/or developing new technology that will reduce costs, that is important. But again I want to point out that I do not think it is possible to reduce beef cost enough so that it can be really competitive with poultry or pork, either one.

Then the second item would be just to come back and emphasize that we keep that beef a palatable, a prestige item, one that people do want, one that people will buy when they are trying to impress someone.

Senator BAUCUS. How do we do that?

Mr. GRIMES. As I indicated to you, this is one of those places where you have all heard the story that Will Rogers supposedly made to a group such as this during World War I: the way to help solve the problems that we have was heat up the Atlantic Ocean so that we would just cook the German Navy. And someone said: well, Will, how do you do that? He said: I do not know; I am the idea man; you are the detail man; you are to decide that.

So, unfortunately, that is not an easy thing to do. If you look at the present time, certainly the palatability characteristics are associated with some of the marbling, which unfortunately is fat. I would hope that somewhere in front of us that maybe technology would permit us—and we do have some research at the present time at the University of Missouri that is attempting to have a product that does carry some fat and removes some of that cholesterol. So, again, possibility—and this being as I represent a university and worked for one for 40 years, why I can say, you know: more money as far as research is concerned.

Senator BAUCUS. What about the packing industry concentration? What are your thoughts on that? You say the pork industry is moving in that direction. You implied strongly and basically said that it certainly is a problem in the beef industry, at least it is a concern. What should we do about this?

Mr. GRIMES. Certainly one of the background that most of us in ag economics have is that the minimum amount of regulation so that we can keep competition is probably the desirable amount. But as I see the trends, it may require legislation to remedy what appears to be happening there. And the same three companies that you mentioned for beef are growing very rapidly in pork.

I listened to the chief executive officer of one company just a few days ago say that by 1993 their plans were to kill 20 million hogs.

Senator BAUCUS. Do you have a view as to whether the remedy is better enforcement under existing law or whether we need new legislative changes?

Mr. **Grimes**. I am into an area that I can speak freely for I am not inhibited too much by knowledge.

But to my knowledge, I am not sure that we have legislation on the books at the present time that will limit this. Certainly most people are aware of the consent decree that applied to, well, one of the packers that we have now or at least a portion of—of two of the companies, that was in the consent decree, back in the twenties. But I would guess that something similar to what did occur at that time may be needed somewhere in front of us if this concentration continues, and I think it will.

Senator **Baucus**. Thank you very much. I have no further questions.

Senator Bond.

Senator **Bond**. Thank you, Mr. Chairman.

Professor Grimes, I was looking at something, and I am far enough away from economics that I am not sure that I understand it any better than I did when I was in school. But you were saying something that may be reflected in these charts.

Regarding both poultry and the hog production, it looks like the charts are supply driven. The higher the supply, the lower the price, the more that the consumers consume. In other words, the general trend of the line is down toward the right-hand side of the page. And I notice that on beef it is just the opposite.

I do not know if that means anything, but I assume that it would lend support to your thesis that the demand for beef is not as price responsive as pork and poultry? Does that make any economic sense?

Mr. **Grimes**. We think all three of them are basically the same, only you are having a structural change in demand, in our opinion, during the eighties on beef that is doing it, Senator.

If you will notice, look at the chart, or the figure on beef. Notice that from 1973 to 1976 how you move down and to the right.[3]

Senator **Bond**. Yes.

Mr. **Grimes**. We would suggest to you that is basically on the same demand curve, just a larger supply of beef. Now then, if you will notice 1979, 1980, 1981, 1982, 1983, 1984, 1985 and 1986 are almost a vertical line.

Senator **Bond**. Yes.

Mr. **Grimes**. Something drastic was happening to the demand for beef during that time period. Each year it took a lower price to consume basically the same supply.

If you will notice, in 1979 we went from a price there on a basis of 1967 of about a dollar, a nickel per pound for the composite of a choice carcass, down to in 1986 only 70 cents?

Senator **Bond**. Yes.

Mr. **Grimes**. So, this is what has been the factor that has been very detrimental to the income of many producers in Missouri as well as producers in all of the beef industry.

The good news is that, if you will notice 1987, 1988, 1989, they seem to stabilize. That 1989 is a very preliminary number, and I think it may be a little better than it really will turn out to be.

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[3] See p. 67.

Senator BOND. But the consumption is well down.

Mr. GRIMES. Yes. And that has been brought about by whatever has reduced this demand. The industry has adjusted to that smaller demand.

Senator BOND. What do you see about the demand for standard grade or pasture fed beef? Is that coming into the consumer's demand equation?

Mr. GRIMES. If we look at the last cycle, where in the reduction phase of a cycle, Senator, we get a substantial portion of our beef supply will be from this kind of beef as we try to short-circuit the production and adjust it back to the weaker prices.

If we look at what happened to us in the mid-1970's, no, we do not have a strong demand for really pasture fed or, if you please, standard beef. In fact we would even point out to you that select beef at the present time is discounted 5 cents per pound in the carcass from Choice yield three. And most of the time it is discounted to, we have had it as wide as 10 cents over the last several months.

So, the current demand, as we read it, for beef in the United States is one that has little outside fat on it but that it does have some inside the muscle so that it will be juicy, tender, and so forth.

Senator BOND. The kind they serve at the beef house at the State fair, I guess.

Mr. GRIMES. I would guess the odds are very high that is what you would find there.

Senator BOND. How does the per capita consumption of fish compare to beef, pork and poultry? I know my good friend from Mississippi is interested in catfish. Is that becoming a more significant mix in the diet of Americans?

Mr. GRIMES. In our opinion yes. We are not sure just how good the data that we have is as far as the amount of fish consumed.

We have a person in the audience that might be able to respond to that better than I can, Leland Southard, with USDA. Leland and Dr. Gene Futrell from Iowa State University here on sabbatical, both of them work in this area.

We do show growth in that. In my opinion we probably have had actually more growth than our data show because our recordkeeping system is probably not quite as good for that as it is for the other meats.

Senator BOND. But would you say, has there been any increase in the total demand for all meats, when you lump fish in with——

Mr. GRIMES. In my opinion yes. In fact, 1989, if it was not a record, it was close to a record as far as total supply of meat.

Senator BOND. You mentioned in your testimony that the importation of pork products from Canada has risen to about 3.9 percent. Will the countervailing duty on Canadian pork products have much of an impact? How do you see that affecting the pork industry?

Mr. GRIMES. In the short run it will have probably very limited impact. But as we do move through time, and these duties do increase substantially as we move into the time period where they have had the very high subsidies, and for the period ending, let us see, June 30, the subsidy for Canadian hogs per head was roughly $28 American, which is sizable.

Now, when we do get that worked into the duty, it should be enough to get their attention. And certainly it should have some impact on their production level. We are importing about 30 percent of Canada's production here in 1989.

Senator BOND. Well, we are very concerned about the condition of the pork industry. As you mentioned, there is growing concern over that, particularly in north Missouri. With your figures on the lack of profitability for an average size farmer, are we likely to see pork continuing toward vertical integration, like poultry? Do we need to be taking some steps? How serious is this trend?

Mr. GRIMES. The vertical integration itself at the present time is very small in the pork industry.

And if I might try to—I apparently did not communicate very well when I suggested that, if we look at the two industries, the thing I do see much similarity developing. And that is factory-like production.

Senator BOND. Yes, up to 3,000.

Mr. GRIMES. And from there on up. You know, we now have one company that has 70,000 sows in the United States.

So, we do see growth in size of operations.

Now, at the present time we are getting very slow growth as far as the integration type ownership is concerned, and that is where we tie together. Our definition of integration is, doing at least two of the functions that in the past have been done separately, either tying that together by direct ownership or by contract. And total contracts at the present time based on our work is about 10 percent of the industry. And probably no more than one-third of that is integrated, if that much of it is integrated.

So, we would say only 2 to 3 percent of the total U.S. production at the present time is integrated, based on our data.

Senator BOND. So, you would say then the situation is not yet critical in the area and you do not foresee it in the near future?

Mr. GRIMES. In our opinion, no.

Senator BOND. You do not see much prospect for hogs, the average hog producer receiving a better price? Is there any relief in store? What do you see, or should they be cutting back on their production?

Mr. GRIMES. I think in the last paragraph or two that I have in the prepared statement, I did try to summarize that.[4] More than likely in the next 5 years, we will go through a fairly normal cycle.

We do think that, even though the change in size of producers will change the cycle, the average producer probably is less than 40 sows at the present time. So, with that, you know, 15, 18 pigs per year per sow marketed, we are still relatively small as far as average size producer is concerned. So, we think the odds favor another near normal cycle.

Now again, I indicated the 1988 drought of course did disrupt this current cycle. It may extend it some. We look for some stronger prices in 1990, in late 1989 and 1990. And if feed prices are as low as we think most likely, based on the most recent data, that probably will spur some additional expansion in late 1990, 1991, and 1992. And then probably by 1993, we will reduce production enough so that our average producer will have quite good profits for at least 1 year.

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[4] See pp. 61 to 62.

Senator **Bond**. Oh, boy, a long time away.

Thank you, Mr. Chairman.

I appreciate your good advice, Professor. I know we have other witnesses to hear, but I thank you again for coming today.

Mr. **Grimes**. Thank you.

Senator **Baucus**. Thank you, Senator.

Senator Conrad.

Senator **Conrad**. Well, Mr. Chairman, in the interest of time I have just one question.

In the cow-calf cycle, you see us about to enter a building phase, I take it from the testimony that I have heard here today and the chart that you have attached to the prepared statement.

Mr. **Grimes**. That is my best opinion.

Senator **Conrad**. That would indicate to me that we would anticipate softening of prices as we move through that building phase. Is that a correct conclusion?

Mr. **Grimes**. Correct.

Senator **Conrad**. How much softening might we anticipate in the near term, say the next 3 years? What kind of reduction in price would you anticipate?

Mr. **Grimes**. Unfortunately, I have to make some assumptions to answer that with any confidence. And that assumption would be that we would maintain beef at near the current levels of demand. Under those conditions, the next 3 years we should—calf prices, Kansas City basis for steers, at the present time we are in the 90's, we would think that we would hold in the upper 80's and 90's, with some possibility of above $1 per pound during short periods in the next 3 years, depending on how fast also we build the herd. The faster we build the herd, the more positive prices can be in the beginning of this buildup. And of course, then the more problem we would have later, if we build fast.

Senator **Conrad**. Well, I would just like to close, Mr. Chairman, with the suggestion that we hook them on cheeseburgers early. I have learned in my own life that, once you are hooked, you are a lifetime customer.

Senator **Baucus**. On that final point though, Professor Grimes, you said that prices will soften, assuming constant demand. It is my understanding that with the agreement the United States reached with Japan, with the increased sales in Japan, that that market will significantly increase over the next several years. You are the expert, you can correct my figures. But as I understand it, about maybe 3 to 5 percent of our production now goes to Japan. And the agreement we reached with Japan last April, provides for a total phaseout of the Japanese quota. Because domestic prices are so high in Japan, three or four or fivefold, compared with U.S. prices, that when the quota is totally phased out, the estimate I get is that U.S. producers will then sell, will practically double their present sales to Japan. Which means, if my 3 to 5 is accurate, that the increased demand will have some effect on counteracting the diminution of price that you referred to. I am curious as to whether you think that trend is accurate, and is that significant?

Mr. GRIMES. Unfortunately, I do not remember things as well as I did at one time. I think your percent is a little high.

Let me respond to that in this way. For each one percent of our production that we can send Japan, it will add probably something over $1 per hundredweight for Choice slaughter cattle. So, that 3 to 5 percent, with all other things held equal, we are talking about $3 to $5 higher prices, at least.

Senator BAUCUS. So, it helps a little. The additional demand helps a little. Which means that we should continue to be aggressive in opening up markets for Americans.

Mr. GRIMES. Very definitely.

I do mention foreign trade in the paper. I point out that unfortunately the entry into many of those countries is political rather than economic. And so I will leave the projections to you in that particular arena.

Senator BAUCUS. I am also heartened to hear your reaction to Senator Bond's question about the countervailing duty provision of pork. I authored that provision of the trade bill so that both pork and hogs could be subject to countervailing duty provisions. And finally they have started the wheels moving. I guess it was in the Trade Commission rule, 3 to 2 in favor of the U.S. industry——

Mr. GRIMES. It was close.

Senator BAUCUS. It was close. But at least we got the right decision.

I am heartened to hear that you feel that in the not too distant future it will have a positive effect from the American producer's point of view. Thank you.

Thank you very much, Professor.

Mr. GRIMES. I am very pleased to be here.

Senator BAUCUS. Thank you.

Without objection, your prepared statement will be inserted into the record.

[The prepared statement and attached charts of Mr. Grimes follow:]

Statement by: Glenn Grimes
Professor Emeritus of Agricultural Economics
University of Missouri-Columbia

before the
Senate Agriculture Committee
Subcommittee on

AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

September 15, 1989

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you at this hearing on farm legislation.

Before I visit with you about what I see as the most likely economic conditions for cattle, hogs and poultry producers in the next few years, I want to remind you that any significant change in feed prices influences the bottom line very much for these producers because feed cost is a major cost component of all three industries.

Before I present you our opinion about where we are in the production cycles and price cycles for meat animals, I wish to visit with you about some of the major changes occurring in the hog industry.

The hog industry has changed at a rapid pace during the past decade and I expect it to continue to do so for the next several years. During the next decade I expect five factors to have substantial influence on the industry. They are:

1. Size of producers
2. Ownership of production facilities--integration--contracting
3. Geographic location of hogs
4. Demand
5. Foreign Trade

I expect the number of hog producers to decline and their average size to increase during the next decade unless there is national legislation to stop this growth. The current economy of size data is very positive for this growth and the most recent data about the growth of larger producers supports the accuracy of this data. Our current data indicates producers marketing 1,000 hogs or more annually accounted for about 70 percent of the slaughter hog marketings in 1986--up 106% from eight years earlier. Current information would indicate there may have been little or no change in the proportion of U.S. hogs produced by these large producers during the last two years. If so, it suggests a slowing of this trend for the first time in over a decade.

I believe the size of hog producers will continue to grow. A number of factors will influence the speed of this growth. Profitability in hog production may have a inverse effect on large producer growth. In some states the increase in importance of large producers is generating efforts to retard this growth through legislation. Our opinion is that these efforts are likely to be negative to the importance of the size of the hog industry in those states by forcing the firms who are prohibited from locating in those states to another state who will welcome them regardless of size or type of ownership.

Based on a study by my co-worker Jim Rhodes, in cooperation with Pork 87, 11 to 12 percent of the hogs in 1986 were produced under some type of contract with very little vertical integration either by contract or ownership. However, I believe there will be more efforts during the next five years to develop more vertical integration in the hog industry. Our definition of vertical integration is when you tie together, under the same management, two or more functions of production, processing, etc., that are normally separated. How rapid this form of ownership and management of production resources develops will probably be influenced by the profitability of hog production, new production technology, and feed prices. Our current estimate is for contract production of hogs to grow at an annual rate of 6 to 10 percent. Only a portion of this growth will be integrated.

The current trends as to location of production indicate a large percentage of the hogs are likely to be produced fairly close to a supply of relatively low cost feed. For the past four years nearly 78 percent of the U.S. swine breeding herd has been in the north central states. This compares with about 75-76 percent of the breeding herd in these states in 1970-75. However, with the possibility of new technology in the near future that will substantially improve feed efficiency, hog production's tie to a supply of low cost feed may be weakened.

Demand growth or losses will be very important to the financial well being of hog producers during the next decade. If demand growth at my calculated rate for 1987 and 1988 could be maintained for the next decade, I believe profit levels would rival the levels experienced in the 1970s. My opinion, which is probably at best an informed guess, is that the probabilities for the 1987-88 rate of demand growth during the next decade are very low. However, because we had two years of growth compared to 12 months earlier, there is good reason to believe the odds may favor some growth or at least no loss in demand for at least a few years. But I would point out that there appeared to be some weakness in pork demand for the fourth quarter of 1988 and the first half of 1989.

Pork and live hog imports into the U.S. have basically doubled during the last decade. During 1979 we imported about 3.4 percent of our consumption, imports increased to 7.7 percent of consumption in 1988. Practically all of this increase came from Canada. In 1979 we imported less than one-tenth of a percent of consumption from Canada but this increased to 3.9 percent in 1988 and has continued to run near this level during the first six months of 1989.

Devaluation of the Canadian dollar compared to the U.S. dollar and subsidies to Canadian producers are the major reasons for this growth in imports of live hogs and pork from Canada. We now have countervailing duties on both live hogs and pork product that may influence imports from Canada in the future.

We have increased our exports of both live hogs and pork during 1989; however, the export of live hogs and pork amounts to only about 1.5 percent of our production for the first half of this year. Because the entry into most of the countries we export to is politically controlled rather than economically the predictability of our export levels in the future is very low.

The current 3-5 year production and price cycle has been changed by the sharp increase in feed prices in 1988 because of drought. The average hog producer has lost money during the past 12 months because of both higher feed prices and lower hog prices. The lower hog prices are due to increased production stimulated by quite good profits during 1986 and 1987.

During the next 12 months the average cost producers will likely be close to breakeven when all costs are considered. If pork production during the next 12 months is down a little from a year earlier as indicated by the June Hogs and Pigs Report and corn prices are not very much above $2 per bushel this fall and winter, I expect some expansion in hog production during the last half of 1990. This seems the most likely result to me in September of 1989. With this scenario pork production in 1991 would likely be large enough to push average hog prices below $40 for the year.

The price series I use is barrows and gilts at 7 major terminal markets.

Hog production, even with the large increase in size of production units, continues to fluctuate substantially during the year. Also, the rate of increase during a cycle expansion continues to fluctuate substantially. For example, during the first year of build-up of the current cycle, the first quarter of increase was in the third quarter of 1987 with slaughter up 4.4 percent from 12 months earlier. The fourth quarter of 1987 increased 12.4 percent from a year earlier. This large increase was followed with only a 7 percent increase in the first quarter of 1988 then moved back up to a 10.4 percent jump in the second quarter of 1988. In my opinion, these kinds of fluctuations during build-ups are likely to continue into the future because they are caused at least in part, by holding larger or smaller numbers of gilts, and increases and decreases in the slaughter rates of sows, as we change breeding herd size. The rate of change in slaughter during the year is also still influenced by increases and decreases in market weights. During the past couple of years the industry has experienced record high weights because of good feeding ratios and heavy discounts on light weight hogs.

I believe the industry will continue to experience the fluctuations in the rate of change as they expand or contract the herd size to economic conditions. However, as larger producers control more of the production, I believe facility constraints will limit some of the weight fluctuations that we have had during the past two years. But, because of the influences of weather on rates of gain, we are almost sure to continue to see some variation in average weights during the year.

Cycles have been a very important characteristic of the hog industry in the past. I look for cycles to continue to influence the industry in the future, but they are likely to be longer. I believe the cycle will be increased in length on both ends by the increased importance of large-sized producers. The increase in the beginning of a cycle may be lengthened because larger producers may need to expand facilities, etc., which may take some longer time to plan and bring on stream. At the high production end of the cycle, I believe the odds favor relatively larger production to continue until the weaker producers are washed out. However, because the average size producer in the U.S. is still below 40 sows, we probably will have another hog production cycle or two that are not too different from the past. New technology may also influence the hog industry during the next five years.

This new technology enhances the growth and efficiency as well as improving the quality by increasing the lean-to-fat ratio of pork. If this new technology does become available, it will increase the competitiveness of the industry by both lowering cost of production and improving quality.

For both 1988 and 1989 the price has averaged in the low $40s per cwt. of live weight, compared to the low $50s in 1986 and 1987.

If hog prices are pushed into the $30s during 1991, I would expect some improvement in prices and profits in 1992 and 1993 with stable feed prices and consumer demand for pork.

BEEF

The production portion of the beef industry has been generally prosperous during the last two years, following stressed financial returns through most of the early 1980s. However, cattle feeding during the past 12 months has been influenced negatively by the higher feed prices.

I expect the well being of cattle producers to be influenced very much by two major factors during the next several years. They are:

1. Change in the rate of change in the size of the cattle herd.
2. Demand

Beef production is influenced very much by producers increasing or decreasing the size of the cattle herd due to economic conditions. Because the cattle herd is over 2.5 times the size of annual cattle and calf slaughter beef production is changed sharply as producers add to the herd because of good economic returns or reduce the herd size because of losses.

Cattle producers have reduced the herd size for seven consecutive years following only three years of growth in the early 1980s. The growth period of the current production cycle was shortened by a number of factors. Higher feed prices along with very high interest rates contributed to increased costs, while cattle prices were depressed due to a slippage in demand. The length of the current production cycle probably will be close to the average of the past several cycles but the growth period was much shorter than average and the reduction phase was much longer.

In my opinion the cattle industry is poised for some growth in the next few years unless something negative to producer income defuses this growth interest. The general price level to producers is usually relatively strong through the early years of a growth period. Anything that changes the demand for beef or the cost of production can influence the rate of growth and the length of the growth period.

If feed prices are relatively stable and the prices are in the low $2 per bushel or less for corn, along with a stable demand I look for the growth rate in the cattle herd to be relatively modest--in the 1-2 percent per year--and to last for at least 4 to 5 years.

At this time one cannot predict with much confidence what will happen to beef demand during the build-up phase of the next cycle. Beef demand declined at a rate of about 5 percent annually during the 1980-87 period. During 1988 and the first half of 1989 demand appears to have stabilized.

There are probably several reasons for the decline in beef demand through most of the 1980s. In my opinion the major reasons for the weak beef demand is concerns about health, changing lifestyles and larger supplies of poultry. I read where a blue ribbon panel of agricultural economists have just completed a study for the cattle industry about beef demand and have concluded that practically all of the decline is due to the larger supply of lower-cost poultry. I agree that most statistical analyses will give answers that may lead one to draw such conclusions. There are two reasons why I do not trust these statistical results. One is that we have no numerical value that measures the change in consumer attitudes because of health, etc. to include in the model. Second, the coefficients developed by the models showing most of the weakness in demand for beef is because of lower priced poultry, have a dismal record of forecasting cattle prices outside the model's data base. If a model will not forecast with acceptable accuracy outside its data base, I do not trust what the model is suggesting about cause and effect within its data base.

I believe it is a very worthy objective for the cattle industry to try to lower costs of production. However, I do not believe there is much chance for beef prices to be reduced enough to be very competitive with poultry or even pork. Remember, the average retail price of broilers in 1988 was only about 34 percent of beef and the average retail price of pork was 28 percent less than beef. With this much higher price, beef is not included in the menu because it is a low cost protein. It is included because it is a prestige item and is liked by consumers. The top priority of the beef industry, in my opinion, is to keep beef in the prestige category.

Fed cattle prices are expected to be in the 70s for choice steers for the next few years. However, cattle feeding profits are expected to be average at best because of the over-capacity to feed cattle.

Cow calf producers are expected to have average or higher returns during the next 2 to 4 years with stable feed prices.

POULTRY

I do little personal analysis of the poultry industry because it is more efficient for me to use the findings of others with major responsibility in this industry. One of these individuals is Bob Remmele with ConAgra, Inc. located in Omaha, Nebraska. Bob points out that the broiler industry has not developed a production cycle unless one considers just changing the rate of growth will suffice as a cycle.

At the present time broiler production is in a fairly fast expansion rate with production expected to be 6 percent larger in 1989 than a year earlier.

Because of a very positive demand situation for broilers, prices will be strong enough this year for profits to be quite strong. Strong enough that production is likely to increase quite rapidly again in 1990.

The demand for broilers is being supported by strong market development as well as health concerns of a substantial segment of the U.S. population.

I read with interest where Don Tyson of Tyson--a large poultry and hog producer with headquarters in Arkansas--was quoted as saying he thought we would not likely be able to continue the substantial growth in per capita consumption of young chicken. The rate of growth in the past two years will not support this opinion. However, a significant portion of the growth in demand for broilers during the past 2 or 3 years probably came from the fast food area. If so, a much slower growth rate or even possibly no growth in the next five years may be most likely.

I believe there is a possibility that poultry production during the next 4 or 5 years may be large enough relative to demand to result in tight or even negative margins for at least a year or two.

TURKEYS

Turkey production has a two-year cycle according to Remmele. 1989 shows only a modest increase for the year but production during the last six months is up over 10 percent, and is expected to continue this growth through the first half of 1990.

Turkey is also benefiting from a strong consumer demand. Both market development and health concerns of many consumers are important factors in this strong demand.

However, even with this strong demand, turkey production is likely to expand enough during the next year to push the average cost producer into a loss position for at least a portion of 1990.

In summary, I believe the hog industry will probably go through all or most of a cycle during the next five years with an adequate supply of relatively low-cost feed. If so, at least two of the five years will have above average returns. Another couple of the years will likely be near break even on average and there will likely be at least one year with substantial losses for the average producer.

For the beef industry demand will probably be the key to a normal cycle. With a stable demand I believe the general price level will be quite strong through 3 to 4 of the next five years.

I believe the rate of growth in demand for poultry will at least slow from the impressive rate of the past five years. If so, I see margins squeezed and probably being in the red a portion of the time.

Action on the part of government that will maintain an adequate supply of feed at a relatively low and stable price will be very positive to the livestock and poultry industry during the next decade.

# # # #

Future Trends - U.S. Hog Industry

1 - Size of Producers

2 - Ownership - Integration

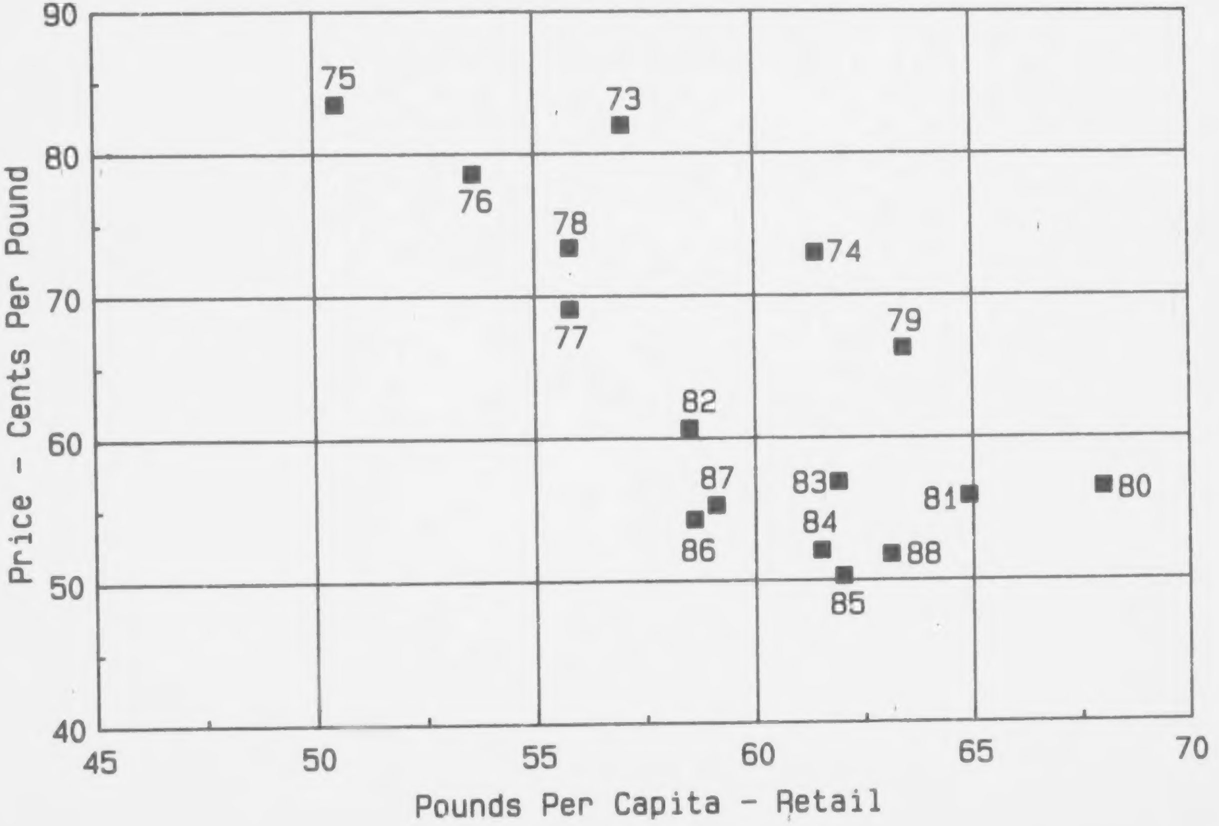
3 - Geographic Location of Hogs

4 - Demand

5 - Foreign Trade

Per Capita Consumption of Pork

& Deflated Retail Prices

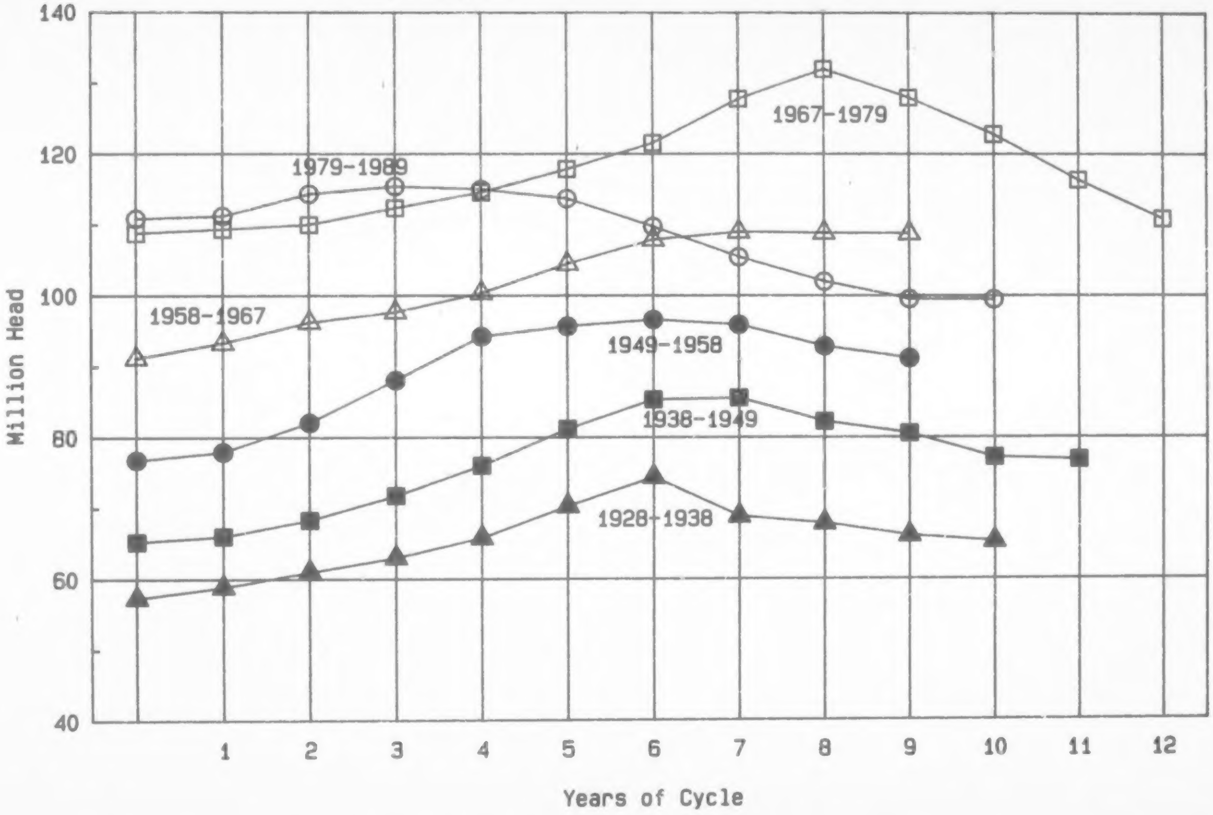


GG:Univ of MO:4/89

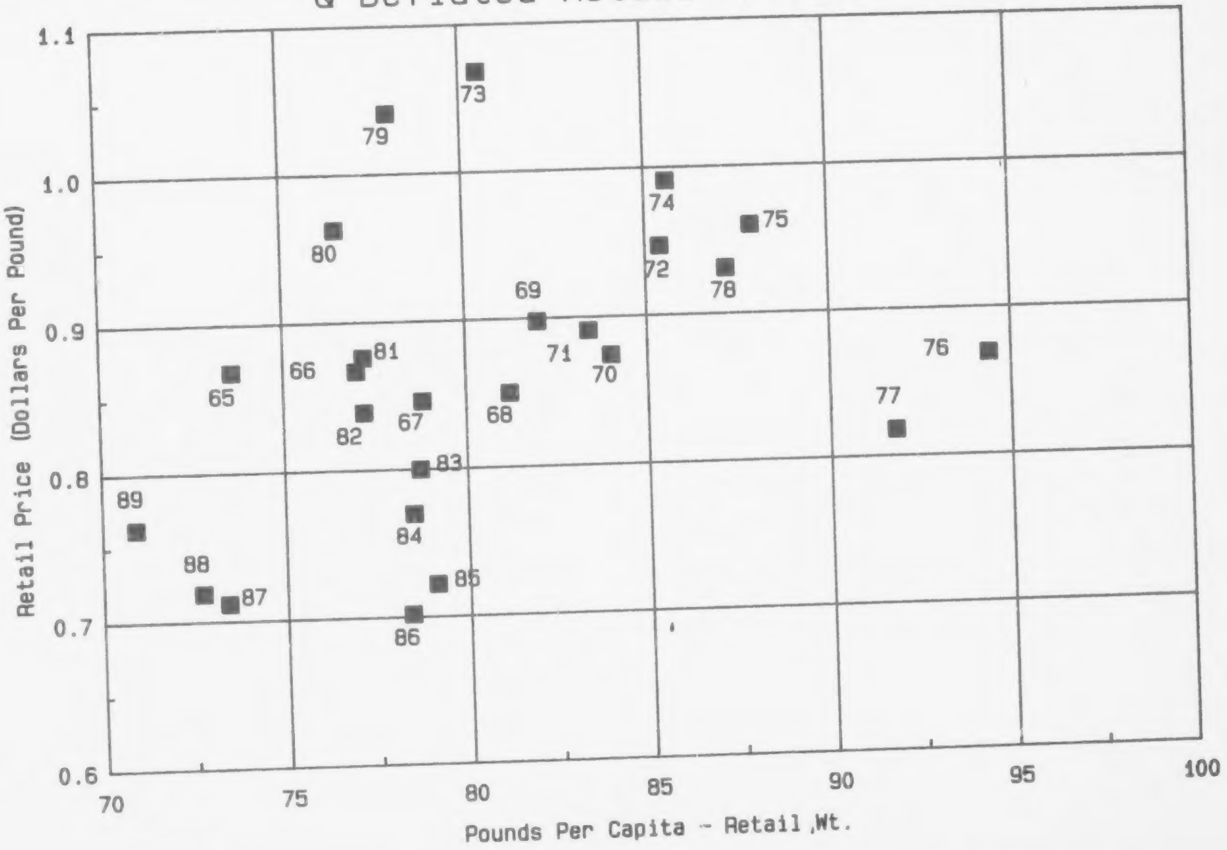
Factors Affecting Cattle Industry

1 - Change in Rate of Change
In Inventory

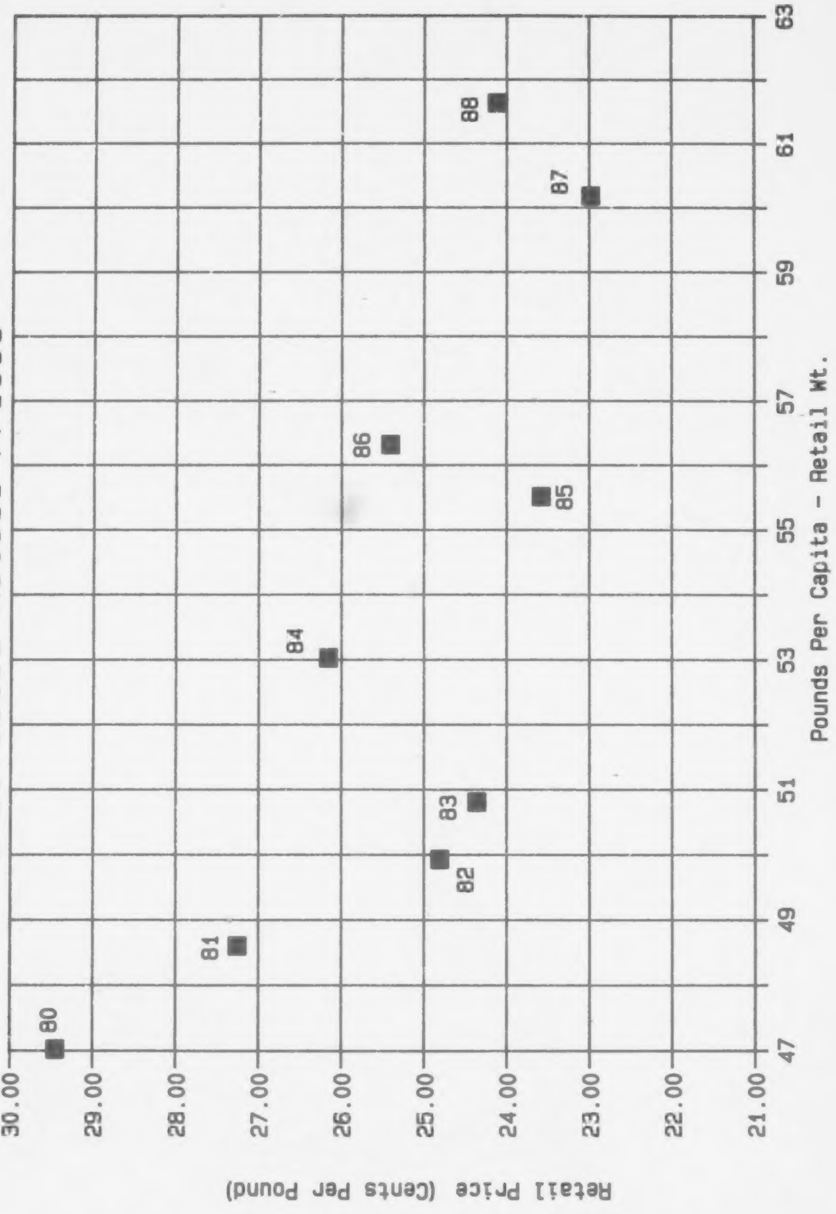
2 - Demand



Inventory of Cattle and Calves
By Cycles, U.S. Jan. 1



Per Capita Consumption of Beef
& Deflated Retail Prices



Per Capita Consumption of Broilers & Deflated Retail Prices

Senator BAUCUS. Our next two witnesses will form a panel. Mr. Jimme Wilson is the former regional vice president of the National Cattlemen's Association from Trout Creek, Montana and Mr. Don Gingerich is president of the National Pork Producers Council from Iowa.

Senator BOND. Mr. Chairman, if I might, unfortunately I have an 11:30 appointment that I have to make. We have another witness from Missouri, Mr. Leland Eikermann, with whom we work very closely. He will be testifying later on. I am sorry that I am not going to be able to be here, but we are delighted to have two representatives from Missouri. I will assure them that we will be looking very closely and following their testimony.

I thank you for the opportunity to participate in your hearing.

Senator BAUCUS. Missouri is as well represented as Montana is today. Thank you.

Please proceed, Jimme.

STATEMENT OF JIMME L. WILSON, FORMER REGIONAL VICE PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION, TROUT CREEK, MT

Mr. WILSON. Good morning, Senator.

INTRODUCTION

My name is Jimme Wilson, and I represent the National Cattlemen's Association (NCA) as a member of the Agriculture Policy Committee. I am a cattle rancher from western Montana, where we are involved in raising Hereford cattle, small grains for silage and timber for commercial lumber.

THE ECONOMIC WELL-BEING OF THE CATTLE INDUSTRY IS IMPORTANT TO AGRICULTURE AND THE NATION AS A WHOLE

The $35 billion cattle industry is the largest segment of American agriculture according to cash receipts, and in 23 States, is either the number one or number two commodity in cash receipts. The economic well-being of the cattle industry is important to agriculture and the Nation as a whole.

Five years ago, the cattle industry, through the National Cattlemen's Association, became a participant in the formulation of the 1985 farm bill. Even though NCA was a new player, we immersed ourselves in various issues. I would like to point out some of the issues that were important to us at that time.

ISSUES IMPORTANT TO NCA

Feed grains, of course, are a very important part of the cattle industry.

Beef promotion, the research act that we asked Congress to assist us in passing, a new research law that would allow the cattlemen to have a checkoff to promote our product, has worked very well. We thank you as a participant to help us pass this program.

The conservation reserve was a new program and 30 million acres have been enrolled in the Conservation Reserve Program. Probably the most important part that affected us cattlemen was the setting aside of these acres that could not be hayed or grazed except in emergency type programs. And although the program was amended in the past because of the drought last year, we felt that the allowing of haying on these acres was justifiable.

Haying and grazing on regular set-aside, of course, has been a very contentious issue within the cattle industry. In 1987 a new law was passed that more or less straightened out this, the regional differences that we had throughout the United States. In Montana we have a semiarid climate. The grazing set-aside really is not that big an issue because nothing grows there any more than on croplands when you have dry years.

The Dairy Termination Program (DTP) was a complete disaster for the cattle industry. The mismanagement by USDA and the hasty manner in which the termination program was developed was well documented. The National Cattlemen strongly believe that the DTP type programs are counterproductive and must not be utilized in the future.

Also, Senator, one issue that you helped us on was the clear title provision of the 1985 act, which became effective in 1986. As a result, the discrepancy between agricultural products and all other products will be eliminated, and farmers and ranchers will no longer have to pay twice in some instances for a product they buy.

IN OUR EYES THE FOOD SECURITY ACT OF 1985 WAS AN OVERALL SUCCESS

In our eyes the Food Security Act of 1985 was an overall success. Probably one of the key issues behind the success was the fact that once the act was in place, there were not any changes midstream, which gave the producer an opportunity to gear his operation to the program. I think this is one thing that it takes 3 or 4 years for a producer to adjust his operation to the farm programs.

NCA WILL BE ACTIVELY INVOLVED IN THE DEVELOPMENT OF THE 1990 FARM BILL

The National Cattlemen's Association plans to be actively involved in the development of the 1990 farm bill. Our primary areas of concern will be the grain, dairy, conservation, trade, and research titles. This is not to say other issues that surface are unimportant. NCA will work diligently with other agriculture groups to develop a farm bill that we can all be proud of and that will serve all segments of the industry.

GRAIN POLICY

We have new ideas emerging, as a triple base for grain. This is something that we will have to look at. Grain policy, in any event, in the 1990 farm bill should continue to use market forces for price discovery.

DAIRY POLICY

Dairy policy will continue to concern the National Cattlemen. At this point, there has been very little talk of a whole herd buy-out, and this is encouraging. Although just this week I have heard that the dairy people are reluctant in taking a 50-cent cut on 100 pounds of milk, which they agreed to earlier in the legislation.

Cattlemen will not idly stand by and allow dairy policy to be implemented that encourages overproduction and burdensome supplies of milk surpluses. The National Cattlemen will work closely with the dairy industry to ensure that all concerns are being heard and understood. We are hopeful that this dialog will continue throughout the 1990 farm bill debate.

CONSERVATION TITLE

The conservation title of the 1990 farm bill may be the most controversial in the sense that forces outside of the agricultural mainstream will have input into the title. From environmental groups to other committees in Congress, the debate regarding conservation may be a hard-fought battle.

ENVIRONMENT

The National Cattlemen's Association is very concerned about the environment, but NCA question the methods used to address the situation. We believe that it is up to Congress, both the Senate and the House Agriculture Committees, to defend the private property rights and issues that involve the cattle industry.

CRP

The Conservation Reserve Program, where we already have 30 million acres set aside, will be reviewed, I am sure; and after the 10-year period, we are very concerned with what the acres will revert back to. Hopefully, they will revert back to a commercial use. We do not want to restrict this use. NCA will oppose any extension of the CRP if it allows haying or grazing of these acres. If the contract must be extended, then definitely the rules and regulations as outlined in the law should be followed.

Recently, Senator, you introduced a bill concerning the Noxious Weed Act of 1974. Our ranch adjoins 6 miles of natural forest roads. We really feel that some type of control of weeds on Federal lands is imperative. In western Montana alone, we have over 4 million acres of knapweed. And I think probably one of the best provisions of your bill is the fact that we are given the opportunity to cost share with the Government and with the State to promote good weed practices that will give us some control. In the past, we certainly have not had this opportunity.

Of course, we are all faced now with the injunctions and problems that we are having with using herbicides on the national forest, and I am sure that this is something that we are going to have to work together to overcome. It is going to take a large appropriation from Congress to help fund this bill. And although we are concerned with fiscal responsibility, we would certainly feel that this is a program that is well worth pursuing.

Our priorities for the 1990 farm bill address——

Senator BAUCUS. Could I ask you to summarize your testimony?

Mr. WILSON. Yes, Mr. Chairman. This pretty much is a summary. It is written in the testimony what our priorities are.

There are a couple of other things that maybe we should thank you for, Senator, and that is helping us promote the beef industry in Japan.

Senator BAUCUS. Very good.

Mr. WILSON. And it has been our privilege to work with Senator Baucus in entertaining some of the Diet members.

Emergency programs have worked well. And I hope that with the disaster provisions and everything, that the ones that are implemented are the exception and do not become the rule.

If there are any further questions, I would be glad to answer them.

Senator BAUCUS. Thank you. I will ask a couple of questions of you.

I wanted to mention to everybody in the room that Jimme Wilson is a very good American. He has a very successful cattle operation in northwestern Montana. I have known him for years.

At the same time, I do not know how he finds the time, he has worked very hard around the country and with the Congress and other organizations helping them with the cattlemen's problems and working with various organizations. He is very active in the NCA. I just want to compliment you, Jimme, for all that you have done for so many people. You have done a lot. We appreciate it.

Without objection, your prepared statement will be inserted into the record.

[The prepared statement of Mr. Wilson follows:]

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Testimony on Behalf of the

NATIONAL CATTLEMEN'S ASSOCIATION

regarding

The 1990 Farm Bill

before the

Senate Committee on Agriculture, Nutrition and Forestry

submitted by

Jimme L. Wilson

September 15, 1989

The National Cattlemen's Association is the national spokesman for all segments of the beef cattle industry--including cattle breeders, producers and feeders. The NCA represents approximately 240,000 cattlemen. Membership includes individual members as well as 47 affiliated state cattle associations and 26 national breed associations.

Mr. Chairman, my name is Jimme L. Wilson, and I represent the National Cattlemen's Association as a member of the Agriculture Policy Committee. I am a cattle rancher from Western Montana where we are involved in raising Hereford cattle, small grains for silage and timber for commercial lumber.

The $35 billion cattle industry is the largest segment of American agriculture according to cash receipts, and in 23 states, is either the number one or two commodity in cash receipts. The economic well-being of the cattle industry is important to agriculture and the nation as a whole.

Five years ago, the cattle industry, through NCA, became a participant in the formulation of the 1985 farm bill. Even though NCA was a new player, we emersed ourselves in various issues. I would like to outline some of the issues that were important to NCA.

- **Feedgrains**: Market orientated grain policy was perhaps the most important policy change for the cattle industry in the 1985 Act. Buying grain based on world market prices allowed cattlemen to timely gauge production costs based on supply and demand factors.
- **Beef Promotion**: The beef check-off has helped the cattle industry promote its products and educate influencers on the industry to bolster demand. The check-off was approved by an overwhelming majority of cattlemen and we in the industry thank you for giving us the opportunity to prove the merits of the check-off.
- **Conservation Reserve**: Now that 30 million acres have been enrolled in the CRP, cattlemen comprehend this enormous new forage base. The prohibition of haying and grazing during the term of the CRP contract was a prudent decision.
- **Haying and Grazing**: A new haying and grazing law was passed in 1987 because of an oversight in the 1985 Act. The new law is a fair compromise that recognizes regional differences. We hope this new law will end the contentious debate on haying and grazing.
- **Dairy**: The Dairy Termination Program was a disaster for the cattle industry. Mismanagement by USDA and the hasty manner in which the DTP was developed is well documented. NCA strongly believes DTP type programs are counter-productive and must not be utilized in the future.

- **Clear Title**: The clear title provisions of the '85 Act became effective on December 24, 1986. As a result, the discrepancy between agricultural products and all other products will be eliminated, and farmers will no longer be forced to pay twice for the products they buy.

In our eyes, the 1985 Food Security Act has been a success. One of the keys to this accomplishment was the fact that Congress did not change the Act in mid-stream. By allowing the Act to mature, farmers and ranchers could plan and implement management decisions without fear of Washington changing directions. NCA hopes the 1990 farm bill follows the same direction.

NCA plans to be actively involved in the development of the 1990 farm bill. Our primary areas of concern will be the grain, dairy, conservation, trade, and research titles. This is not to say other issues will not surface as the bill develops. NCA will work diligently with other agriculture groups to develop consensuses and coalitions in order to create a farm bill we all can be proud of.

The new grain policy idea of triple base is being aired as a way to provide program grain producers with flexibility in their planting decisions. Some proponents of the triple base plan would allow non-program crops to be grown on the third base. NCA questions the fairness of allowing non-program crops to be planted on protected program crop base acres. This concern needs special review. What good would come out of helping one farmer at the expense of another? Grain policy, in any event, should continue to use market forces for price discovery.

Dairy policy will continue to concern NCA. At this point, there has been little talk of a new dairy whole herd buy-out and that is encouraging. Congress must continue to develop dairy laws that ensure accountability and low milk surpluses. The fear in the cattle industry is that if milk surpluses grow to unbearable amounts, the government will again have to slaughter dairy cows to remove the surplus. Cattlemen can not idly stand by and allow dairy policy to be implemented that encourages over-production and burdensome milk surpluses. NCA will work closely with the dairy industry to ensure all concerns are being heard and understood. We are hopeful this dialogue will continue throughout the 1990 farm bill debate.

The Conservation title of the 1990 farm bill may prove to be the most controversial in the sense that forces outside of the agricultural mainstream will have input into the title. From environmental groups to other committees in Congress, the debate regarding conservation may be a hard fought battle.

NCA is very concerned about the environment, but NCA questions the methods used to address the situation. Cattlemen believe it is imperative to closely guard private property rights as Congress writes environmental laws. Farmers and ranchers will depend on both of the Agriculture Committees to defend and protect private property rights.

The Conservation Reserve Program will certainly be reviewed and the questions of what to do with the land after the 10 year contract are bound to be asked. NCA's answer is; let the land return to commercial use. Do not restrict the use. NCA will oppose any extension of the CRP if the extension allows for any commercial use besides hunting. If payment of any kind is made to a CRP participant for extending a contract, then the no haying and grazing law must remain intact.

Recently two bills have been introduced in the Senate to amend the Federal Noxious Weed Act of 1974. Senate Bills 1159 and 1200. Both of these bills refer to control of noxious weeds on Federal lands and adjacent lands under state or private ownership. Funds will be appropriated by Congress to fund these programs with additional funds coming from state and private ownership. There has been very little weed control on both Bureau of Land Management and Forest Service lands in many instances. In fact, over 4 million acres of knapweed can be found in Western Montana alone. Although the programs suggest a large appropriation, these programs are absolutely necessary if we are to return the lands to productivity. It will give the individual adjoining federal lands an opportunity to cost share in the eradication of noxious weeds. This legislation could be tied to the 1990 Farm Bill.

NCA's agriculture research priorities of the 1990 farm bill will focus on:

- addressing consumers' interest in food safety and human nutrition through the development and implementation of beef safety assurance programs and diet/health research;
- conservation of land, water and air resources;
- improving the efficiency of production; animal health and care; fabrication and merchandising of beef product;
- developing methods for true value determination in live cattle and wholesale/retail product.

It is our hope that implementation of these research results can be administered utilizing the concept of Integrated Resource Management (IRM). IRM programming will enable the industry to incorporate the above interdisciplinary research results into an effective management system that will promote environmental stability, market competitiveness and consumer acceptance.

Therefore, we ask that you work with us to achieve our research objectives by incorporating into the 1990 Farm Bill support for Integrated Resource Management and its interdisciplinary systems approach to problem solving.

Certainly, there will be new issues and provisions in the 1990 farm bill that have not surfaced. NCA will closely follow all titles and will take part in developing the programs that affect our industry.

Mr. Chairman, thank you for the opportunity to be here today.

Senator BAUCUS. Next is Don Gingerich; I want you to go ahead with your testimony.

STATEMENT OF DON GINGERICH, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, PARNELL, IA

Mr. GINGERICH. Thank you, Mr. Chairman.

INTRODUCTION

My name is Don Gingerich, from Parnell, Iowa. I am president of the National Pork Producers Council (NPPC), which represents 100,000 pork producers and their families in 45 member States. We are a dynamic and changing organization. It is my pleasure to be here representing NPPC today.

Mr. Chairman, we commend you and the committee for its fine work in developing and implementing the 1985 farm bill. Overall, the last 4 to 5 years have been positive for the pork industry.

Before commenting on the new farm bill for 1990's, I would like to address the foundation already set in place through the existing farm programs.

1985 FARM BILL

The 1985 farm bill was successful in providing a continuous supply of feed for livestock, while providing new export enhancement opportunities. Specifically, the Target Export Assistance Program has allowed us to increase pork exports to Japan.

Thank to the efforts of the Senate Agriculture Committee, we are optimistic that ASCS will make appropriate corrections in emergency feed assistance programs and make water assistance more available to pork producers.

1990 FARM BILL

Now in regard to the 1990 bill, I will enter a copy of my testimony for the record and summarize the comments, the things that are important to us.

Our top priority now is to look ahead to new initiatives in the 1990 farm bill. In particular, we want to focus on research, the environment, and trade issues.

RESEARCH

On research, because infectious diseases continue to be the main cause of illness and death in domestic livestock, we must continue to respond to disease. The Federal Government can be of assistance with basic research and be available for consultation and coordination in implementing programs such as the proper use of animal drugs.

Biotechnology is certain to open a new frontier for agriculture, and we need to ensure that mechanisms are in place to evaluate and use those technologies that fit into goals in agriculture. An example of that is the pork somatotropins, which was mentioned earlier, and which will be available to us soon and will increase our feed efficiency by 15 to 20 percent and also decrease fat consumption of the meat by a similar proportion. This is the most dynamic and dramatic production technology ever to come our way at one time.

We must also continue to develop new products to meet the various needs of consumers throughout the world.

Swine research, in particular, is underfunded. Land-grant universities and Agricultural Research Service institutions have simply been lacking in funding to keep up with inflation and our foreign competitors. U.S. pork producers need the support of research directed at lowering the cost and increasing the efficiency of production through genetics, breeding, and other mechanisms. Product development and more sophisticated marketing will be required cornerstones if we are to sell competitively in the international marketplace. Agriculture in the 1990's also calls for the evaluation of alternative methods to respond to environmental concerns, and new initiatives to ensure the wholesomeness of food products for the consumer.

TRADE POLICY

Regarding trade policy, the market forces of supply and demand would function well in the U.S. domestic context if left alone. However, that is not necessarily the case in the international export market where foreign producers are often subsidized. The U.S. Government needs to intervene to offset unfair foreign marketing practices, rules or subsidies. The Federal Government should expand foreign market development efforts and assist in funding agricultural organizations in a fashion not possible by individual producers.

TEA AND EEP

The TEA funds took U.S. pork to new markets in Japan, Hong Kong, Singapore, and other areas.

The Export Enhancement Program was not used to respond to unfair trade practices on pork. However, we hope that we can design export programs in the 1990 farm bill that will provide us an opportunity to be more responsive to trade-distorting practices of our foreign competitors.

A new "value-added" export program would help further our industry by affording us the opportunity to sell more pork competitively in overseas markets. U.S. sales of end-products that require little or no additional processing for consumption accounted for only 5 percent of world agricultural trade in 1987. Although one-fourth of U.S. agriculture exports fall into this end-product category, the United States remains a small player in this lucrative $134 billion international market.

On the export side, U.S. producers are undaunted. Pork exports have a positive impact on slaughter hogs—in 1988, exports helped prices approximately 90 cents per hundredweight. Moreover, 12.2 million bushels of corn and 3.1 million bushels of soybeans were exported through pork in 1988.

CONSERVATION AND WATER QUALITY

Other issues we would like to address are conservation and water quality.

Clearly, there is a need for an accelerated program of technical, educational and financial assistance at the local level to promote development and implementation of best management practices.

We would like to see USDA take a leading role in addressing ground water contamination and the threat of it and how we might address it more carefully in the future.

COMMODITY PROGRAMS

The commodity programs are headed in the general direction that we support. We would like to see more flexibility.

FOOD SAFETY

We are concerned about food safety. We have developed our own quality assurance program to help in that.

We would encourage that fish inspection be consistent with meat and poultry inspection by having USDA be part of that inspection process.

CONCLUSION

In conclusion, the 1980's have brought dramatic changes. We would like to see U.S. agriculture in the 1990's be based more on world economy. Biotechnology, environmental concerns, and more sophisticated foreign competition point to a whole different horizon of change.

We as the National Pork Producers Council offer our services in helping to design the new farm bill.

Senator BAUCUS. Thank you very much, Don. I particularly appreciate that last comment about how the world is changing so dramatically and how important it is that we all, in each of our businesses, keep abreast of those changes and developments so that we know how to deal with them and so that they can protect our own point of view.

Each of you has outlined a very good list of concerns. One point of view is the cattle producer; another point of view is that of the pork producer. I am wondering, without diminishing or minimizing any of the long list, if each of you could just name the single most important recommendation to the Congress that you want us to have uppermost in our minds. If you were to come down with one major recommendation that is probably more important than the others—and I know that they are all important, and we will deal with them all, but sometimes we cannot do everything. If there is one that you could single out that probably is the most important from your group's point of view, I would like each of you to tell us what that one would be.

Mr. GINGERICH. I might try two on you.

Senator BAUCUS. Sure.

Mr. GINGERICH. Trade and research would be two of our higher priorities.

Senator BAUCUS. By trade, you mean more aggressive market openings and protecting ourselves from unfair trade practices? Is that what you mean by trade?

Mr. GINGERICH. Yes, the subsidies from other countries.

Senator BAUCUS. Exactly, like the countervailing duty provision, for example.

Mr. GINGERICH. You are right.

Senator BAUCUS. And research, addressing the research points you made.

Jimme.

Mr. WILSON. I think because of the drought we get into these emergency programs. One thing we are certainly concerned about, like I mentioned before, the provisions that are carried out through the programs are the exception and not the rule. The cattle industry would still like to remain on a market oriented free enterprise system.

And it does bother us sometimes when we are taken too close to being involved in some of the programs. We participate when we are in dire straits, and we certainly were last year.

I think that maintaining the free enterprise system is very, very important to us.

Senator BAUCUS. Thank you.

Without objection, your prepared statement will be inserted into the record.

[The prepared statement of Mr. Gingerich follows:]

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Statement of the
NATIONAL PORK PRODUCERS COUNCIL
Before the

Subcommittee on Agricultural Production and Stabilization of Prices

Committee on Agriculture, Nutrition and Forestry

United States Senate

on the

1990 Farm Bill

September 15, 1989

Presented by: Don Gingerich, President
National Pork Producers Council
Parnell, Iowa

NATIONAL HEADQUARTERS: P.O. BOX 10383 ■ DES MOINES, IOWA 50306 ■ PHONE: 515-223-2600

Mr. Chairman and Members of the Subcommittee:

I am presenting this testimony today on behalf of the National Pork Producers Council (NPPC), which represents 100,000 pork producers and their families in 45 member states. NPPC is the largest commodity dues-paying organization in the United States and accounts for more than 90 percent of the nation's commercial pork production.

One of the major external factors affecting pork producer profitability is government policy as it impacts producers' business costs and ability to effectively market products. We want our producers, who are increasingly involved in a technologically-advanced and capital-intensive process, to obtain at least an adequate return for their substantial investment of time, energy, and dollars. That is the only way to continue to have enough producers of pork who can assure American consumers have what they expect of farmers -- an abundant and safe supply of reasonably-priced food.

Mr. Chairman, we commend you and the committee for its fine work in developing and implementing the 1985 Farm Bill. Overall, the last four to five years have been positive for the pork industry.
Before commenting on the new Farm Bill for the 1990s, I would like to address the foundation already set in place through existing farm programs.

1985 Farm Bill

The 1985 Farm Bill was successful in providing a continuous supply of feed for livestock, while providing new export enhancement opportunities. Specifically, existing feed grain and soybean programs have provided adequate supplies of feed at reasonable prices, except for the drought of 1988. In addition, the Targeted Export Assistance Program has allowed us to increase exports of pork to Japan.

We really have no problems with the 1985 Farm Bill, although we did experience eligibility problems with the emergency feed and water-assistance programs in 1988 and 1989. Last year's drought caused tighter feeding margins for pork producers with break-even prices projected to rise about $5 per hundredweight due to higher feeding costs in 1989. Moreover, it appears that we will see more volatile grain and soybean prices in the future even without a drought.

Thanks to the efforts of the Senate Agriculture Committee we are optimistic that ASCS will make appropriate corrections in emergency feed assistance programs and make water assistance more available to pork producers.

1990 Farm Bill

Our top priority now is to look ahead to new initiatives in the 1990 Farm Bill. In particular, we want to focus on research, the environment, and trade issues.

Research

NPPC believes that the future of our industry is in our own hands. Yet, pork producers are convinced that we will need the cooperation of the federal government to undertake certain research programs and coordinate national efforts to control and eradicate swine diseases. Because infectious diseases continue to be the main cause of illness and death in domestic livestock, we must continue to be able to respond to disease. The federal government can be of assistance with basic research and be available for consultation and coordination in implementing programs such as the proper use of animal drugs.

NPPC has noted a new appreciation for the need to reassess our research needs, especially within the livestock industry. We not only have existing technologies to assess and implement, but we need to identify our most serious research priorities for the next decade. Biotechnology is certain to open a new frontier for agriculture, and we need to ensure that mechanisms are in place to evaluate and use those technologies that fit into our goals in agriculture. We can make a positive contribution to the farm and rural economy if we continue to make the right adjustments in agriculture and its infrastructure in the next decade. We must also continue to develop new products to meet the various needs of consumers throughout the world.

Historically, research expenditures for the improvement of animal agriculture have not been proportional to expenditures on plant research. Livestock producers make up approximately 50 percent of total agricultural income, but animal agriculture does not receive anywhere near half of federal research dollars.

Swine research, in particular, is under-funded. Land-grant universities and Agricultural Research Service institutions have simply been lacking in funding to keep up with inflation and our foreign competitors. U.S. pork producers need the support of research directed at lowering the cost and increasing the efficiency of production through genetics, breeding, and other mechanisms. Product development and more sophisticated marketing will be required cornerstones if we are to sell competitively in the international marketplace. Agriculture in the 1990s also calls for the evaluation of alternative methods to respond to environmental concerns, and new initiatives to ensure the wholesomeness of food products for the consumer.

Trade Policy

The market forces of supply and demand would function well in the U.S. domestic context if left alone. However, that is not necessarily the case in the international export market where foreign producers are often subsidized. The U.S. government needs to intervene to offset unfair foreign marketing practices, rules or subsidies. The federal government should expand foreign market development efforts and assist in funding agricultural organizations in a fashion not possible by individual producers. This federal support is needed to assist producers because they lack governmental authority and cannot readily act cooperatively.

We must also assess our market in terms of a world economy because of heightened international competition and potentially different global trade rules after the Uruguay Round of the General Agreement on Tariffs and Trade. Although American pork producers only export slightly above 1 percent of their production, we are optimistic that the right trade policy will provide new opportunities for our products overseas.

Specifically, programs such as the Targeted Export Assistance (TEA) Program provided $1.8 million in 1988 and approximately $2.5 million in 1989 for pork-specific promotions. These TEA investments took U.S. pork to new markets in Japan, Hong Kong, Singapore, among others.

The Export Enhancement program was not used to respond to unfair trade practices on pork. However, we hope that we can design export programs in the 1990 Farm Bill that will provide us an opportunity to be more responsive to trade-distorting practices of our foreign competitors.

A new "value-added" export program would help further our industry by affording us the opportunity to sell more pork competitively in overseas markets. U.S. sales of end-products that require little or no additional processing for consumption accounted for more pork competitively in overseas markets. U.S.

sales of end-products that require little or no additional processing for consumption accounted for only 5 percent of world agricultural trade in 1987. Although one-fourth of U.S. agriculture exports fall into this end-product category, the U.S. remains a small player in this lucrative $134 billion dollar international market.

In wake of recent developments in Poland and a subsequent need for food aid, the National Pork Producers Council has been active in pursuing trade programs to include pork bellies in any food aid package. As of late August, we had 96 million pounds of pork bellies in cold storage. This is approximately 30 million pounds over the historical 57.9 million pound ten-year average for pork bellies. Our efforts to ship pork bellies to Poland have pointed out a need to take a second look at Public Law 480 and other food aid programs that are designed to use surplus commodities.

The total value of pork and related by-product exports increased to $382.5 million in 1988. However, in value terms the U.S. remains a net importer of pork, with the value of imported pork at nearly $934 million last year. Over one-half of our imports came from Canada, where pork producers received federal and provincial government subsidies in excess of $20 per animal during the last year. Our producers are seriously concerned about these unfair subsidies fueling foreign imports of pork. In addition, we are seeking further assurances that pork imports meet the same health and sanitation standards that are required of domestically produced pork.

On the export side, U.S. producers are undaunted. Pork exports have a positive impact on slaughter hogs--in 1988, exports helped prices 90¢ per hundredweight. Moreover, 12.2 million bushels of corn and 3.1 million bushels of soybeans were exported through pork in 1988. Exports of pork contributed to domestic soybean and corn use and this helped support farm income. We are optimistic about the opportunities to increase exports of pork. Yet, we recognize that the rest of the world has also learned about the tremendous economic benefits of marketing grain through hogs.

Conservation/Water Quality

We recognize that future agricultural productivity in this country depends upon the continued availability of an adequate supply of groundwater and fertile crop land. It is in the long-term interest of agriculture not to exhaust these resources for short-term profit.

Water quality is an important issue to producers both as domestic consumers and agricultural users. We pledge our support to the committee to address groundwater quality concerns. We believe that there are tremendous opportunities to increase the amount of

information available to our producers and to reduce the impact of groundwater pollution on human health.

Clearly, there is a need for an accelerated program of technical, educational and financial assistance at the local level to promote development and implementation of best management practices. These efforts will correct and reduce degradation of water supplies from agricultural activities. More technical assistance should be delivered through the federal, state and local cooperative approach that has proved so effective in conservation and erosion control programs.

Specifically, we believe that we can address many of the contamination threats to groundwater through the help of the Extension Service and Soil Conservation Service (SCS) personnel.

To provide accelerated technical assistance to farmers, the government could assign additional SCS technical staff to local field offices. The Extension Service could also deliver a broad-based education and outreach program on water quality. This program could increase farmers' awareness of the impact agricultural activities may have on our water supplies and provide information on effective practices to protect water quality.

In addition, the Agriculture Research Service and the Cooperative State Research Service can help develop an accelerated program of research on water quality. Their studies could find the best methods of controlling and reducing contamination of water supplies. Of course, we also need options, such as conservation reserve-type programs for situations where there is extreme water quality degradation.

The U.S. Department of Agriculture can play the lead role in coordinating and expanding existing programs to address many of the contamination threats to groundwater. USDA will need to develop a system that can accurately assess the precise nature of the relationship between agricultural activities and groundwater quality. It should also develop and facilitate the adoption of production management strategies that will prevent groundwater contamination. Through a cooperative effort, USDA and farmers together will not only protect, but improve the nation's most basic resource--water.

Through a cooperative effort, USDA and farmers together will not only protect, but improve the nation's most basic resource--water.

Commodity Programs

Because the 1985 Farm Bill has worked well in stabilizing U.S. agriculture, we encourage you to continue its general direction in the 1990 Farm Bill. The key to future farm programs is that they continue to be market-oriented. We would support minor adjustments in price support programs, such as more flexibility of planting and other similar changes. New flexibility provisions should not only be responsive to market signals, but encourage good rotation practices that are agronomically and environmentally sound.

Food Safety

Pork Producers are concerned about food safety and see the need for continued efforts to ensure that we provide safe and wholesome products to the consumer. In fact, we have developed our own Quality Assurance Program to help our producers avoid illegal drug residues, improve management skills, and reduce production costs. This education program, if put into practice by the majority of U.S. pork producers, will help the industry protect or even expand its market for pork. This will be accomplished by reducing the risk of incidences that could destroy consumer confidence in pork. The Pork Quality Assurance Program provides information on hog-feed preparation, minimum withdrawal times, on-farm testing, and producer self-certification.

We support congressional efforts to make fish inspection consistent with meat and poultry inspection by having the U.S. Department of Agriculture responsible for inspection and other regulation. Moreover, it may be more appropriate not to have food safety as a separate title of the Farm Bill, but address it in free-standing legislation before the 1990 Farm Bill.

Conclusion

The 1980s have brought dramatic adjustments to agriculture here and abroad. The 1990s are likely to bring additional changes with the world economy being more interdependent than ever. Biotechnology, environmental concerns, and more sophisticated foreign competition point to a whole different horizon of change. Therefore, we must stand ready for new directions for farm and trade policy. The National Pork Producers Council offers its services in helping to design a new farm bill that will lead us into the next century.

Senator BAUCUS. Thank you both very much. I appreciate it.

Our next panel is David McClure, president of the Montana Farm Bureau Federation, Lewistown, Montana; and Howard Lyman, legislative assistant for the National Farmers Union, Washington, D.C.

Thank you, Dave and Howard, for coming today.

Dave has been very active in the Farm Bureau for a long time. I know he has made the Fergus County Fair operate very well because of his efforts.

Howard, too, has been very active in Farmers Union issues for years and very active in our cultural issues. Both are experts and wise, solid people. We are very happy to have you both here.

Dave, please proceed first.

STATEMENT OF DAVID L. McCLURE, PRESIDENT, MONTANA FARM BUREAU FEDERATION, LEWISTOWN, MT

Mr. McCLURE. You are very kind, Senator. I want to thank you personally for the opportunity to be here before the committee.

INTRODUCTION

I will be testifying for the American Farm Bureau, which is the Nation's largest general farm organization representing more than 3.7 million member families in 49 States and Puerto Rico.

I am Dave McClure, president of the Montana Farm Bureau, and a wheat, barley, cattle and hay producer from Lewistown, Montana. I am pleased to present the views of our members to the Senate Agriculture Committee today regarding the very important issue of livestock and the 1990 farm bill.

I will present a summarized version of my submitted testimony, but I hope the entire statement will appear in the record.

Senator BAUCUS. All statements will be included in the record.

Mr. McCLURE. Thank you.

FARM RECEIPTS FOR LIVESTOCK AND POULTRY

Livestock and poultry producers accounted for 50 percent of the cash farm receipts of U.S. agriculture in 1988. Total cash receipts from the sale of farm products totaled $157 billion, with $78 billion coming from livestock and poultry products and $72 billion coming from crops.

FEED COSTS

Feed costs account for about one-half of the total production costs for livestock and poultry producers. In 1988, feed expenses were $21 billion, the largest expense item in production. For the 1988–89 marketing year, domestic feed usage accounted for 54 percent of U.S. feed grain usage, 49 percent of soybean use and 6 percent of wheat use. Livestock and poultry producers use over 5 billion bushels of feed grains and wheat as feed in a normal year. A 10 cents per bushel shift in prices due to farm programs results in a $500 million change in feed costs.

CONCERNS

Given the livestock industries' heavy dependence on feed, we are very much concerned about farm program crop pricing policy, acreage reduction programs and commodity stocks policies. These farm program tools affect the price and availability of feedstuffs which have a major impact on the profitability of livestock enterprises.

THE PRICE SUPPORT LOAN PROGRAM

The price support loan program was designed to be an orderly marketing tool to expand the marketing opportunities available to grain producers. Farm Bureau does not believe that the basic loan should be used as a price enhancement tool because that would discourage the selling of grain and encourage the buildup of excess supplies.

MARKET PRICES ARE ALSO AFFECTED BY PUTTING GRAIN INTO THE FARMER-HELD RESERVE

Market prices are also affected by putting grain into the farmer-held reserve. In theory, any feed price increase resulting from grain entering the reserve would be saved at a later date as grain released from the reserve helped to keep prices from moving sharply higher.

LOSSES

Livestock and poultry producers have suffered substantial economic losses in the past due to administration of the farmer-held reserves for feed grains and wheat.

ELIMINATE FARMER-HELD RESERVES AND REPLACE BY AN ADDITIONAL LOAN AVAILABLE TO WHEAT AND FEED GRAIN PRODUCERS

As a result of the impact that the farmer reserve has had on livestock producers, the American Farm Bureau policy has supported eliminating the program. We believe that the reserves should be replaced by an additional loan available to wheat and feed grain producers. This loan should not have an interest charge applied for the first 9 months, with a 9-month extension that would accumulate interest.

CHANGES IN PRICE AND INCOME GUARANTEES FOR GRAIN PRODUCTION ALSO AFFECT DECISIONS ABOUT ALLOCATION OF RESOURCES WITHIN A FARMING OPERATION

Changes in price and income guarantees for grain production also affect decisions about allocation of resources within a farming operation. A farm program that increases price and income guarantees in crop production, while reducing profitability in livestock and poultry production, will encourage diversified livestock and grain operations to shift toward specialization in grain production only. This destroys the financial balance that a diversified farming operation provides and increases the farm operation's production and financial risks as a result of crop specialization.

"BALANCE WHEEL" RELATIONSHIP

Farmers and ranchers and leaders in Congress must keep in mind the "balance wheel" relationship between crop and livestock production when developing the 1990 farm bill.

PRODUCERS OF NON-PROGRAM COMMODITIES WANT AND WILL HAVE A GREATER VOICE IN THE DEVELOPMENT OF THE 1990 FARM BILL THAN THEY HAVE HAD IN WRITING PREVIOUS BILLS

Producers of non-program commodities want and will have a greater voice in the development of the 1990 farm bill than they have had in writing previous bills. It is evident that the markets for commodities produced without government price and income support programs are affected by farm program policies. Certain proposals to adjust farm programs would substantially increase the extent of those impacts. This is particularly important when price support levels and issues like increased planting flexibility and shifting production patterns to meet environmental requirements are addressed. We must make sure that one group does not benefit at the expense of others.

PROGRAMS THAT CAN HAVE A SUBSTANTIAL IMPACT ON THE LIVESTOCK SECTOR

There are other programs that can have a substantial impact on the livestock sector. For example, Farm Bureau is opposed to a whole-herd buyout as a solution to the dairy problem. Likewise, Farm Bureau is opposed to permitting haying and grazing on set-aside or rotated acreage unless the area has been declared a disaster. Finally, we recommend the continuation of the Wool Act.

RECOGNITION OF THE ONGOING RATE OF TECHNOLOGICAL ADVANCEMENT

We must write the next farm bill with a recognition of the ongoing rate of technological advancement that is affecting agriculture.

RESEARCH

In addition, the 1990 farm bill is the proper forum to address the need for improved and additional research on poultry and livestock production.

ENVIRONMENTAL POLICIES

Environmental policies that directly and indirectly affect agriculture will also be addressed in the farm bill and are extremely complex. Farm Bureau's first concern is with the opportunity to produce. While it is easy for someone to say what should be done in a farming or ranching operation, it is the role of the farmer as a manager of resources to actually make production decisions. As long as the focus is on what is feasible from a management standpoint, strides can be made in improving the environment.

REVIEW AND UPDATE PROGRAMS

As a final note, the programs that are designed to provide direct support to livestock producers, such as the commodity distribution programs and the emergency feed assistance programs, should be reviewed and updated if necessary.

We in Farm Bureau are looking forward to the 1990 farm bill to further improve the net farm income of our members. We look forward to participating in future hearings on the next farm bill.

Senator BAUCUS. Thank you very much.

Mr. MCCLURE. I will attempt to answer any questions.

Senator BAUCUS. Howard, we have a vote going on. If you can keep within the 5 minutes, we can do it.

Mr. LYMAN. I guarantee it.

Senator BAUCUS. Go ahead.

STATEMENT OF HOWARD F. LYMAN, NATIONAL FARMERS UNION, WASHINGTON, DC

INTRODUCTION

Mr. LYMAN. Mr. Chairman, my name is Howard Lyman. It is a distinct pleasure for me to be able to testify for the first time since 1982, in front of my own Senator.

I need to tell you that the people from Montana are ecstatic that the chairman of the livestock subcommittee is their own Member.

ECONOMIC ISSUES—CONCENTRATION IN THE BEEF PACKING INDUSTRY

What we are looking at today, Mr. Chairman, is exactly what happened 30 years ago in the poultry industry. In 1950 Ralston Purina took a look at vertical integration in the poultry industry, and they set the trend for the future. What we are concerned about today is the vertical integration and the concentration in the livestock industry.

In 1967 the Packers and Stockyards Administration took a look at what was happening in the poultry industry. And they found that there was such a thing going on as blacklisting. I need to tell you today that you can call any feedlot operator you want in front of this committee. I will guarantee you he will look you in the eye and say that the concentration is no problem. And I do not blame him a bit. If I had 5,000 head of cattle or more home on my lot and somebody asked me to commit economic suicide by claiming that three or four beef producers were controlling the industry, I guarantee you I would say definitely not.

But the fact of it is that the net profit in beef today is somewhere between $5 and $10 a head on a large lot.

Being unable to sell your animal for 7 days will eat up that profit. When you have four industries that control the industry as they do today, four corporations, you do not have to go down to the local 7-Eleven and have a cup of coffee and decide how to set the price. What they are doing, these people are professionals, and what they do, they understand how the game is played. They do not have to come together, but they are controlling the industry as we know what it is today.

If we take a look at probably the largest operator in an integrated industry today, which is Tyson, they were so successful in the poultry industry that today they are handling 10,000 head of hogs. And Don Tyson himself, in 1987, told "Successful Farming" magazine: "I cannot imagine why beef and hog slaughter operations today are not doing exactly what we are doing in poultry." And they are.

We are seeing that more and more of the industry is being taken up by fewer and fewer companies. If we take a look at what is happening, for example, in West Germany, anytime any member of the community ends up with 33 percent of the market, they are considered having a monopoly. You know, when we look at what we have today, why in the world the Packers and Stockyards Administration is not doing something.

Congressman Neal Smith did a 3-year study on the monopoly in the beef industry and decided that it definitely was a monopoly. Absolutely nothing has happened.

What we would ask is for this committee to get out that study, dust it off, and extend it and let us see where it is today.

If we do not deal with this, there is absolutely nowhere that the State of Montana is going to survive, because every beef packing industry takes care of the feedlot industry that surrounds it, using captive States like Montana that has no packing industry, to do nothing other than fill. And if you cannot fill the market on a timely basis, the profit will be gone. We will see no feedlot industry at all in Montana.

TWO REQUESTS

We basically would ask two things: that this committee would take a look at the Neal Smith study, and dust it off, take a look at it. And the other thing is to provide the leadership, with Justice and the Packers and Stockyards Administration, and tell them to get off of their duff and do what they are put in place for.

Thank you, Mr. Chairman.

Senator BAUCUS. I appreciate that very much, Howard. Actually, I cut you down to 4 minutes, not 5. I appreciate that.

I am going to have to leave here in about 8 or 10 minutes. The main point you have is the concentration in the beef packing industry.

Mr. LYMAN. Most definitely.

Senator BAUCUS. That is basic.

Dave, what is the one point you want to leave with this committee?

Mr. MCCLURE. Oh, I think research. You know, the biotechnology area certainly has the potential to keep us competitive worldwide. And it may answer some of our environmental concerns.

Senator BAUCUS. I appreciate that.

Without objection, your prepared statements will be inserted into the record.

[The prepared statements of Mr. McClure and Mr. Lyman follow:]

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OUTLINE OF AFBF STATEMENT BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY REGARDING LIVESTOCK AND THE 1990 FARM BILL

Presented by David L. McClure, President
Montana Farm Bureau Federation

September 15, 1989

OUTLINE OF AFBF STATEMENT BEFORE THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY REGARDING LIVESTOCK AND THE 1990 FARM BILL

Presented by David L. McClure, President
Montana Farm Bureau Federation

September 15, 1989

The American Farm Bureau (AFBF) is the nation's largest general farm organization representing more than 3.7 million member families in 49 states and Puerto Rico. I am David McClure, President of the Montana Farm Bureau and a wheat, barley, cattle and hay producer from Lewistown, Montana. I am pleased to present the views of our members to the Senate Agriculture Committee today regarding the very important issue of livestock and the 1990 farm bill.

The Food Security Act of 1985 played an important role in improving the economic situation in agriculture. However, we should not forget that improved marketing conditions for livestock and poultry reflecting positive macro-economic developments both home and abroad also contributed to the improved income situation of U.S. agriculture. The task before us now is to build on the current situation so that agriculture can prosper into the 1990s. We must keep in mind the many forces affecting farm income that are beyond the control of Congress. Therefore, the next farm bill must be flexible enough to deal with that uncertain future.

Livestock and poultry producers accounted for 50 percent of the cash farm receipts of U.S. agriculture in 1988. Total cash receipts from the sale of farm products totaled $157 billion, with $78 billion coming from livestock and poultry products and $72 billion coming from crops.

Feed costs account for about one-half of the total production costs for livestock and poultry producers. In 1988, feed expenses were $21 billion, the largest expense item in production. For the 1988-89 marketing year, domestic feed usage accounted for 54 percent of U.S. feedgrain usage, 49 percent of soybean use and 6 percent of wheat use. Livestock and poultry producers use over five billion bushels of feed grains and wheat as feed in a normal year. A 10 cents per bushel shift in prices due to farm programs results in a $500 million change in feed costs.

Given the livestock industries' heavy dependence on feed, we are very much concerned about farm program crop pricing policy, acreage reduction programs and commodity stocks policies. These farm program tools affect the price and availability of feedstuffs which have a major impact on the profitability of livestock enterprises.

Farm programs contain a lot of features, but the two most important ones to livestock producers are the price support loan program for feed grains, wheat and soybeans and the farmer-held reserve for feed grains and wheat. These programs directly impact the short-run market prices of feedstuffs and the buildup of carryover supplies. The buildup of carryover supplies plays a major role in determining production adjustment programs in future years.

The price support loan program was designed to be an orderly marketing tool to expand the marketing opportunities available to grain producers. Farm Bureau does not believe that the basic loan should be used as a price enhancement tool because that would discourage the selling of grain and encourage the buildup of excess supplies.

Market prices are also affected by putting grain into the farmer-held reserve. In theory, any feed price increase resulting from grain entering the reserve would be saved at a later date as grain released from the reserve helped to keep prices from moving sharply higher. In fact, grain prices are increased when grain enters the reserve and then forced sharply higher at the first sign of a smaller crop because the reserve supplies are locked away from the market until grain prices reach the release price. For example, after 1.34 billion bushels of 1982 corn moved into the reserve, average farm prices moved from $2.26 in December 1982 to $3.04 in June 1983, even though the drought did not become fully evident until late July of that year.

Livestock and poultry producers have suffered substantial economic losses in the past due to administration of the farmer-held reserves for feed grains and wheat. Reserves supposedly created to insure adequate supplies of grains at reasonable prices and to reduce grain price variability, have actually been used to force up the price of grains, particularly during periods of short crops. Livestock and poultry producers ultimately paid the price in higher feed costs and the subsequent economic adjustments. Basic economics says that if the price of a major input item, like feed, is forced up by government, the cost of producing the end product, livestock and poultry products, is forced up and consumers purchase less of these products compared to what they would have purchased at a lower price.

Changes in price and income guarantees for grain production also affect decisions about allocation of resources within a farming operation. A farm program that increases price and income guarantees in crop production, while reducing profitability in livestock and poultry production, will encourage diversified livestock and grain operations to shift toward specialization in grain production only. This destroys the financial balance that a diversified farming operation provides and increases the farming operation's production and financial risks as a result of crop specialization. As these risks go up, the demand for more government involvement in agriculture to shield producers from risk also goes up. This is the vicious cycle that U.S. agriculture has pursued in farm programs over the past 10 years. Farmers and ranchers and leaders in Congress must keep in mind the "balance wheel" relationship between crop and livestock production when developing the 1990 farm bill.

Producers of non-program commodities want and will have a greater voice in the development of the 1990 farm bill than they have had in writing previous bills. It is evident that the markets for commodities produced without government price and income support programs are affected by farm program policies. Certain proposals to adjust farm programs would substantially increase the extent of those impacts. This is particularly important when price support levels and issues like increased planting flexibility and shifting production patterns to meet environmental requirements are addressed. We must make sure that one group does not benefit at the expense of others.

There are other programs that can have a substantial impact on the livestock sector that needs to be addressed. For example, Farm Bureau is opposed to a whole-herd buyout as a solution to the dairy problem. Likewise, Farm Bureau is opposed to permitting haying and grazing on set-aside or rotated acreage unless the area has been declared a disaster. Finally, we recommend the continuation of the Wool Act.

We must write the next farm bill with a recognition of the ongoing rate of technological advancement that is affecting agriculture. We are on the threshold of a new age of production practices and methods of supplying commodities for the world's consumers. We must assure that our farm policies are flexible enough to adapt to the dynamics of today's and tomorrow's agriculture. Our policies, both for farm programs and other policy, should foster and promote the development of these new technologies.

The 1990 farm bill is the proper forum to address the need for improved and additional research on poultry and livestock production. The farm bill should provide the direction for the future of agriculture, and to remain competitive in the future we need to shore up agricultural research. In the ever changing world, failure to constantly improve production will result in the U.S. falling behind our competitors.

Environmental policies that directly and indirectly affect agriculture are extremely complex. Farm Bureau's first concern is with the opportunity to produce. While it is easy for someone else to say what should be done in a farming or ranching operation, it's the role of the farmer as a manager of resources to actually make production decisions. As long as the focus is on what is feasible from a management standpoint, strides can be made in improving the environment. The impacts of the 1985 farm bill on conservation compliance are far reaching and are yet to be fully implemented. It would be prudent to leave well enough alone and let the 1985 legislation run its course rather than developing additional restrictions for farmers to comply with before the conservation programs imposed under the 1985 farm bill are fully implemented.

As a final note, the programs that are designed to provide direct support to livestock producers, such as the commodity distribution programs and the emergency feed assistance programs, should be reviewed and updated if necessary. The commodity distribution programs provide a valuable tool for USDA to help stabilize weak markets and at the same time provide bargain prices for food distribution programs. The feed assistance programs should be updated to make sure they provide real assistance to livestock producers in disaster situations.

We in Farm Bureau are looking to the 1990 farm bill to further improve the net farm income of our members. We look forward to participating in future hearings on the next farm bill. I would be happy to answer any questions.

NATIONAL
FARMERS
UNION

Testimony of the

NATIONAL FARMERS UNION

Presented to the

Subcommittee on Agricultural Production
and Stabilization of Prices

Senate Committee on Agriculture, Nutrition, and Forestry

September 15, 1989

Presented by Howard F. Lyman

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TESTIMONY OF HOWARD F. LYMAN, ON BEHALF OF THE NATIONAL FARMERS UNION BEFORE THE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES, SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY, SEPTEMBER 15, 1989.

Thank you, Mr. Chairman. My name is Howard Lyman, and I am a former cattle rancher from Montana now on staff with the National Farmers Union here in Washington. I appreciate the opportunity to be here today to share my organization's views on the direction national policies should take in the 1990 farm bill with respect to livestock and poultry.

Farmers Union's policy recommendations fall into three general categories: economic concerns, health and safety concerns, and international trade concerns. Formally adopted policy resolutions on these issues from our 1989 annual meeting are attached.

We believe that the current structure of livestock production and processing, and new challenges on the immediate horizon, warrant action by Congress in three areas. First, an exhaustive study on these issues completed by the House Small Business Committee nearly ten years ago should be updated to account for recent mergers and acquisitions within the industry. Second, additional concentration or vertical integration should be halted until the study is completed and Congress has an opportunity to act on the information. Finally, we believe that the Packers and Stockyards Administration within USDA and the antitrust division of the Justice Department have shown the same "hands-off" regulatory attitude exhibited by the Commodity Futures Trading Commission -- and with similar trade-restraining results. We call for an oversight hearing to investigate the enforcement activities of those agencies, followed by whatever legislative action may be necessary to ensure proper enforcement of the law.

I. Economic Issues

One cannot look at livestock production in the United States without recognizing the impact of concentration in livestock processing, concentration in livestock production, including the growth of contract feeding operations, and vertical integration of many of these same companies. National Farmers Union is very concerned that we are beginning to see in the hog and beef industries what we saw thirty years ago in the broiler industry.[1]

Prior to the 1950's, corporations played a relatively minor role in broiler production, providing supplemental feeds and medication. Ralston Purina began the shift in the 1950's from its role as a feed supplier to an integrated processor of poultry. Others quickly followed.

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[1] For a historical analysis of similarities between the broiler industry of thirty years ago and the pork and beef industries of today, see Carter, David, "The Corporate Livestock Threat," National Farmers Union, 1988.

Producing broilers under contract seemed like a golden opportunity to many family farmers in Arkansas, Georgia, and Alabama, who thought that for a small investment they could have a guaranteed income. Yet, their lack of bargaining power for contract terms, and the near total control of every phase of production from eggs through retailing by the same companies led to one-third of the broiler farms in the United States going out of business between 1954 and 1964, and most of the remainder serving as hired hands of the corporations.

A 1967 Packers and Stockyards Administration (PSA) study highlighted some of the problems faced by contract operators trying to negotiate the terms of their livelihoods with vertically integrated corporations.2 According to the report, "low income of growers and vulnerability to offensive market practices are symptoms of the basic problem -- lack of bargaining power." The report went on to describe how contracting companies would "blacklist" growers who attempted to organize to improve their bargaining position. Two years before the study, the PSA had issued a cease and desist order against Arkansas Valley Industries, Ralston Purina, and Tyson Foods to keep them from threatening or harassing producers who attempted to organize. Unfortunately, the order was set aside by a U.S. Appeals Court on the basis that the PSA did not have the authority to initiate such a proceeding.

Twenty years later, the six largest farms in the United States were corporate poultry operations. The largest, Tyson Foods, processes and packages over 13 million chickens each week from its contract farms. Its chairman and CEO, Don Tyson, is one of the highest paid executives in the country.

In 1987, Don Tyson told Successful Farming magazine that the beef and pork industries "should be doing what we're doing, rather than letting the food companies take the lead." Taking his own advice, Tyson's operations are second in the country in hog production, and also slaughter over 10,000 hogs per week from contract operations.

"The most rapid shift to larger volume hog operations has occurred mostly since 1980 when totaled production was excessive relative to demand, and returns to producers were poor. Thousands of small producers gave way to larger ones between 1980 and 1984. The number of hog operations during this period dropped 34 percent nationally and 41 percent in the Southeast. By the end of 1984, the 6 percent of all produces who had 500 or more hogs in

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2 "The Broiler Industry, An Economic Study of Structure, Practices and Problems," Packers and Stockyards Administration, U.S. Department of Agriculture, Washington, D.C., September 18, 1967.

inventory held 52 percent of the total U.S. hog inventory."3

Iowa has been the top state for hog production for years, and is still on top, but other states are closing in. "But if corn-rich Iowa is the Detroit of hog production, Murphy Farms and the other large incorporated hog businesses of North Carolina may be the Japan. Just as Japanese carmakers challenged Detroit's dominance of the U.S. auto industry, Murphy and other large Southern companies threaten smaller Midwest family farmers by using the latest mass production technology, cheap labor and market power at the packing plant . . . . In the past five years, those companies have doubled the number of hogs they market."4

Five corporations will market more than 2 million of the 4.7 million hogs expected to be raised in North Carolina this year. Murphy Farms, Inc. should lead the way with about 950,000 North Carolina hogs, plus another 300,000 in Iowa and Minnesota. Carroll's Foods, Inc. will produce about 450,000 market hogs. The other three companies are Prestage Foods, Cargill, Inc., and Tyson Foods.5

Similar levels of concentration exist in cattle feeding. In the 1960's, "farm feedlots (those with a one-time capacity of fewer than 1,000 head) sold more than 61% of all fed cattle marketed. Their number has dropped in half, and their share has fallen below 30%"6

Hog processing is dominated by ConAgra, IBP (Occidental Petroleum), Excel (Cargill) and Sara Lee, who together controlled 31% of the market last year. Turning to beef processing, a quick reshuffling shows IBP, ConAgra, Excel, and National Beef together controlling more than 70% of the business of slaughtering grain-fattened cattle.7 While IBP has relied primarily on internal growth, Con Agra and Cargill have relied heavily on mergers to develop their strong positions. "[Several] of the recent acquisitions by Con Agra and Cargill appear to have

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3 Van Arsdall, R., and Nelson, K.E., 1985. "Economics of Size in Hog Production," USDA Technical Bulletin No. 1712.

4 Looker, Dan, "Iowa Reign as Pork King Threatened," Des Moines Sunday Register, August 13, 1989.

5 Ibid.

6 McCoy, John H., Ph.D., and Sarhan, M.E., Ph.D., Livestock and Meat Marketing, Third Edition. VanNostrand Reinhold Co., Inc., 1978, page 70.

7 Heffernan, William, and Constance, Douglas, "Concentration of Agricultural Markets", University of Missouri-Columbia, 1989.

violated Section 7 of the Clayton Act."8

Mr. Chairman, clearly there is domination by a few corporations in processing hogs and beef, and there is also increasing domination by a few corporations in large feedlot production operations and contract activities with farmers. But, we cannot close the discussion of economic domination without also looking at the degree of vertical integration among these same few corporations. Cargill, for example, is second in the country in the milling of wet corn and soybeans, and first in overall grain elevator capacity. The company is one of the largest seed producers and also produces fertilizer. ConAgra is the largest flour miller and a major seller of farm supplies. National Farms owns thousands of acres of Nebraska cropland. We have allowed a few powerful corporations to have virtual control over every aspect of the food chain, from the time a feed grain crop is planted until the consuming livestock is slaughtered and retailed to the American public.

Farmers Union does not believe that this has been by conscious choice of consumers. Rather, it has been allowed to happen by a federal policy more interested in getting out of regulating the private sector than in protecting the interests of the public which the agency is to serve. Some may still suggest that there is no problem -- that "market efficiency" demands still more concentration and that the days of the independent rancher or independent sale barn ought to be numbered. We disagree, not out of some romantic notion of preserving life the way our grandfathers had it, but out of a sense of the economic best interests of farmers, rural communities, and consumers.

The economic best interests of grain farmers are violated when the same large corporations that dominate grain production from the seed to the elevator also get into the livestock feeding business and dominate the feedgrain producers' local markets. The economic best interests of hog farmers are violated when the four largest packers can increase their market share by 1% and decrease hog prices by 2 cents per hundredweight.9 The economic best interests of cattlemen are violated when a 10% increase in market share by the four largest beef packers lowers fed cattle prices by 10 cents per hundredweight. When IBP enters a market region, fat

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8 Marion, Bruce W., "Restructuring of Meat Packing Industries: Implications for Farmers and Consumers," testimony presented at hearings held by the House Agricultural Committee of the Iowa State Legislature, December 7, 1988. Section 7 of the Clayton Act prohibits mergers which may tend to create a monopoly or substantially lessen competition.

9 "Monopsony Power in Commodity Procurement: The Case of Slaughter Hogs," Miller, Steve, and Harris, Clemson University, 1981.

cattle prices are reduced by 44 cents per hundredweight.[10] Packing plants may also be willing to give a price premium to larger corporate operations controlling many animals. The five Carolina State University economist Kelly Zering. largest hog producers in North Carolina are estimated to receive as much as $2.00 to $3.00 per hundredweight bonus by North "Instead of having to run a hog buying station, packers can get larger lots of hogs delivered to the plant," according to Zering.[11]

Contract feeding operations are unquestionably profitable for the contracting company. This year, 60 percent of Murphy Farms feeder pigs and half its market hogs will be grown under contract.[12] But, too often, the farmer must trade whatever equity he has in his operation for new debt to finance necessary buildings and equipment needed to meet his contractual obligations. In exchange, he gets a contract price that insulates him from the risks of a poor market price and the benefits of a strong market price. "With the state's heritage of large plantations before the Civil War and sharecropping afterward, "the on-farm owner was not the rule as it was in Iowa," said Sonny Faison, President of Carroll's Foods, in explaining why North Carolina is better suited to contract production than the Midwest.[13]

Certainly, the consolidation taking place in livestock production and processing is not limited to the U.S. or its corporations. British Petroleum purchased Purina Mills division in 1987, Ferruzzi of Italy purchased Central Soya in 1988, Grand Metropolitan of England purchased Pillsbury in 1988, and Borden bought a pasta company from the Labatt's of Canada, just to name a few.[14] What impact will an increase in mergers and consolidations among multinational corporations with livestock or feed interests have on domestic livestock producers and domestic livestock prices? If the companies which have engaged in contract feeding operations with U.S. producers find cheaper labor in Central America, what effect will that have on our contract producers and their investments in new buildings and equipment? International questions, which I will discuss in more detail later, must be made a part of the public policy debate on the issue of concentration.

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[10] "The Impact of Packer Buyer Concentration on Live Cattle Prices," Quail, M., Geithman, Marquardt, Univ. of Wisconsin, 1986.

[11] Des Moines Sunday Register, note 4, supra.

[12] Ibid.

[13] Ibid.

[14] Heffernan and Constance, see note 7, supra.

The impact of livestock industry concentration and integration on rural businesses is also substantial. The bulk purchasing needs of a corporate feedlot virtually require by-passing the local elevator to bring in trainloads of feed from elsewhere -- possibly from another of the corporation's subsidiaries. In North Carolina, Murphy Farms, Carroll's Foods and Prestage Farms own a joint venture that imports trainloads of corn from Ohio.15

Smaller slaughtering facilities cannot compete with the giants when livestock prices are too high, and follow smaller producers out of business when prices are too low. "Most of the large firms -- IBP, Inc.; Excel; ConAgra; Wilson, Swift; Armour; and others -- are multiplant operations. Their slaughtering and processing facilities are located near supply sources in many states. They have national distribution systems and often are involved in promotion and advertising."16

How is it that we can allow independently owned and operated farms and ranches to be run out of business by corporate feedlot competition or reduced to contract servitude, we can allow local input suppliers to be overlooked by huge feedlot operations, and we can allow independent slaughtering facility owners and operators become hired hands for one of the corporate giants, and we can allow slaughtering house workers to lose jobs or work for the corporate giants at lower pay, and still claim that we've done something for rural development by scrambling to find a way to spend a $300 million appropriation for fiscal year 1990? How much more have we allowed to be bled out of rural communities and into corporate profits? "The most obvious adverse impact to the communities is plant closings and the loss of payroll. For example when John Morrell closed their Esterville Beef plant, the annual payroll loss was at least $8.3 million, $8.00 x 2,080 hours x 500 workers - $8,320,000. In addition, workers thrown out of a job became eligible for unemployment benefits, food stamps and other welfare assistance.17 Retraining communities to fry each other's hamburgers for $4.00 per hour, when they used to process, pack, and ship the beef for $8.00 per hour, is not economic progress.

While this is not 1920, and we are not faced with the identical set of facts surrounding the PSA's original consent decree, consumers should nonetheless be concerned about how industry concentration and vertical integration are affecting them. Consumers need to be concerned primarily because the government agency charged with being concerned for them isn't.

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15 Ibid.

16 Livestock and Meat Marketing, note 6, supra, at 224.

17 Anderson, Lewie, "An Industry in Crisis: Return to the Jungle," United Food and Commercial Workers International Union, March 1989, page 18.

In a May 1988 New York Times article, then PSA administrator Bill Jones stated that the agency saw no evidence of price manipulation, although he admitted that as concentrated as the market already is "they don't have to collude to know what each other is doing."18

With or without collusion, retail prices for meat products have risen since 1980. USDA estimates that retail choice beef prices have increased 20 cents per pound, and retail pork prices have increased 50 cents per pound. In the same time, prices paid to farmers increased 2.4 cents per retail pound for choice beef and 6.2 cents per retail pound for pork. While retail pork prices did drop by 5 cents per pound from 1987 to 1988, pork producers saw their share of retail prices drop by over 13 cents.
In other words, the farm to retail price spread, i.e. the difference between what the consumer pays and what the farmer receives, has been steadily increasing with the degree of industry concentration.19

While past discussions of retail prices have blamed a series of nameless "middlemen" along the food chain, future discussions may reveal that in some cases vertical integration has left the same company in the role of middleman at each step in the process. For example, by 1986, ConAgra "owned such top-selling labels as the Banquet brands of frozen prepared foods, Country Pride and Country Skillet poultry products and Singleton seafoods. And it was selling fresh and processed meats and dairy products under the Armour Foods brands . . . . The Company was No. 1 in lamb sales and No. 2 in chickens and pork even before [buying E.A. Miller, Inc., Monfort of Colorado, Inc., and half of the Swift Independent Holding Corporation] . . . . Now it is also No. 2 in beef and No. 1 in meat sales of all kinds. That makes it the No. 1 supplier to America's kitchens, since meat is the biggest item in the food basket for the average household."20

Throughout the past twenty years, the news media has repeatedly brought national attention to bear on this problem. Impact studies from several different sources have documented such industry concentration. And even the detailed study done by the House Small Business Committee concluded the industry was being monopolized. "Yet, in the face of all this documentation,

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18 Robbins, William, "A Meatpacker Cartel Up Ahead?", New York Times, May 29, 1988.

19 Dunham, Dennis, "Food Cost Review, 1988", USDA Economic Research Service, Agricultural Economic Report Number 615, Table 21, July 1989.

20 Robbins, William, "ConAgra's Hold on the Food Chain", New York Times, May 29, 1988).

the U.S. Justice Department has not only refused to take corrective action, but, in fact, has opposed legislation to curb the monopoly appetite of the nation's leading meat packers."21

Failure of the PSA and the Antitrust Division of the Department of Justice to take a proactive approach to enforcing their respective laws, and an April Supreme Court decision holding that indirect purchasers may recover damages under a state antitrust statute have left states with little alternative but to try to deal with these issues on their own.22 Already, the Minnesota House Agriculture Committee has approved a state version of the Packers and Stockyards Act.

That proposed legislation was one of the focal points for a conference last month jointly sponsored by the National Farmers Union and the Minnesota Farmers Union. The Vertical Integration and Land Ownership Forum was designed to provide state legislators and farm leaders with tools to identify and address threats to family-owned and operated livestock production. In addition to discussing current levels of industry concentration, participants reviewed model state legislation dealing with vertical integration and foreign and corporate ownership of farmland. They also explored loopholes to enforcement of existing laws and considered the legislative approaches taken to concentration in other countries.

"In West Germany, if a firm has a market share of 33 percent, it is presumed to dominate the market and is regulated as a monopoly. The same is true if up to three firms have a 50 percent market share or if up to five firms have 67 percent of the market."23 This does not mean a corporation is prevented from increasing its market share in West Germany. It simply means that corporations choosing to do so must live by a different set of rules that ensure the competition so important to agricultural producers, food quality, market responsiveness, and consumers in general. The government of West Germany has evidently realized the very basic fact that unconstrained market domination benefits no one other than the few parties in control. It is unfortunate that our own government, particularly the Departments of Justice and Agriculture, have yet to reach that conclusion.

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21 Anderson, Lewie. See note 17, supra.

22 California v. ARC America, Corp., __ U.S. __, 109 S.Ct. 1661 (1989) held that antitrust was traditionally an area for states and therefore the Sherman Act did not preempt state laws.

23 Helmuth, John W. "Concentration in the Meat Packing Industry," presented August 23, 1989 at the Vertical Integration and Land Ownership Forum, National Farmers Union and Minnesota Farmers Union.

The Vertical Integration and Land Ownership Forum was a great success in helping state legislators who are seeking ways to protect their agricultural industries and rural communities. But, the multistate and even multinational aspects of livestock concentration, and resulting effects on producer and consumer prices, argue for a federal solution if at all possible. And the solution must be found soon, because there are new economically-driven possibilities for even more concentration in livestock production in the not too distant future. This is not 1920, when control of about half of processed beef market by five companies prompted that PSA consent decree. It is 1989, and we are told that domination of more than 70% of the processed beef market by three companies is not a problem. We urge this Committee to provide close oversight of the PSA, and to begin closing the gaps in the law that have allowed the current situation to develop. Finally, we must anticipate the additional market effects of new technologies which are already pushing 1989 light years away from 1920.

Perhaps the most threatening development is the advent of animal patenting. The PSA study from 1967 to which I referred earlier, claimed that the concentration found in the broiler industry shouldn't be met with too much alarm, since at least there were no patents available to restrict new entrants into the market. "If new firms are unable to enter an industry, existing firms are isolated from potential competition. Entry is restricted when existing firms have exclusive patents or products which cannot be duplicated by entering firms . . . . There are no significant barriers to entry at the integrator-processor level due to patents, technology, or exclusive products"24

As you know, Mr. Chairman, the Patent and Trademark Office (PTO) has issued a patent on a cancer gene placed in a Harvard University Research mouse. As you also know, PTO has many more applications for animal patents pending. A bill to exempt farmers from royalty payments passed the House last year after PTO admitted that, under current law, each time a patented animal was sold or reproduced, the farmer owed royalties to the patent holder for the 17-year life of the patent. Unfortunately, the 100th Congress adjourned before the Senate could take up the bill.

The implications of patenting royalties to livestock producers' costs of production are obvious and staggering. Rep. Robert Kastenmeier (D-WI) has reintroduced the farmers' exemption bill, now H.R. 1556. Hearings were held on the bill this week, and markup is expected soon. We urge this Subcommittee to begin the process of moving similar legislation through the Senate.

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24 see note 2, supra.

25 In addition, Representative Kastenmeier has introduced a second bill, H.R. 1557, which would establish a regulatory framework for the animal patenting process.

Farmers Union strongly supports Representative Kastenmeier's efforts on the issue of animal patenting. Yet, there is one very troubling aspect of the issue that has not been addressed by legislation so far: the impracticality of tracing livestock sales over the life of the patent. Clearly, it would be difficult, if not impossible for a patent holder to police the patent and keep track of when royalties might be due. Some groups have used this as an argument against the royalty exemption bill -- i.e., after a generation or two, it would be hard to catch an infringing producer, so the royalty issue isn't as problematic as Farmers Union makes it out to be.

Mr. Chairman, there's no doubt in my mind that a company that can make genetic alterations in an animal can introduce a tracing mechanism if it wants to -- for example, each patented animal could have a green left ear. More likely, however, and much more troublesome, is the possibility that a patent holder would take the easy way out of the tracing problem by not selling the patented animal in the first place. In other words, any producer interested in raising the "supercow" would have to work for the patent holder on a contract basis. The patented animals would be the property of the patent holder rather than the farmer. The combination of contract production and corporate control of the livestock gene pool could be the end of the independent family-owned livestock operation in this country.

Throughout my testimony, I have raised concerns about whether increased contract farming operations are the salvation -- as some would suggest -- or the beginning of the end for family-owned and operated farms. Like all contracts, the benefits of contract livestock production are only as good as the bargaining power of the respective parties. If one party is holding a genetically superior animal, there is no bargaining power on the other side.

Farmers Union is also concerned about the impact of other new technologies on concentration in our livestock industries, particularly bovine somatotropin, or bovine growth hormone (BGH). I realize that the focus of today's hearing is not on the dairy industry, so I won't belabor our very strong economically-based reservations about the commercial use of BGH in an industry that does not need more production. However, I would like to point out two possible impacts of BGH on meat prices. First, assuming effectiveness and adoption by dairy farmers at the rates predicted by the promoting companies, BGH should increase the national milk supply by 15 to 20%, making far fewer dairy cows necessary to meet demand. On a localized level, some parts of the country are predicted to see many of their dairy producers driven out of business. Second, some researchers have noted that cows injected with BGH "burn out" faster -- i.e., would have to be culled from the herd after fewer lactations than normal.

The combined effect on meat prices of a short-term downsizing of the dairy industry plus a long-term increase in dairy herd culling rates could make the dairy termination program look like a picnic. And porcine somatotropin, with similar implications for price depressing effects on pork and other meats in competition with pork, is only a step behind.

At least the dairy termination program included a provision requiring the Secretary of Agriculture to purchase 400 million pounds of red meat to stabilize beef, pork, and lamb prices. Farmers Union would recommend giving the Secretary discretionary authority along the same line to purchase red meat for price stabilization purposes if advancing technology or natural disaster result in excessive culling or liquidation of livestock herds.

II. Health and Safety Issues

Any animal disease, whether avian flu, pseudorabies, or bovine tuberculosis can mean disaster when large herds are concentrated in small areas. And, new technologies can add to animal health problems -- for example, increased instances of mastitis in dairy cows injected with BGH. Yet, the increased use of antibiotics to avoid the spread of disease can also raise health questions. The problem can be doubled when poultry manure from confinement operations is fed to cows as a source of protein. Of course, the cows also get whatever drug residues might be present. We would encourage including in the farm bill's research and extension title some additional efforts on herd health management.

Farmers Union is also concerned about the environmental impact of concentrated livestock production. Agriculture has been identified as a major contributor to non-point source pollution of groundwater, and at least some of the problem is due to nitrates from animal manures. Highly concentrated livestock operations, such as the pork operation which National Farms would like to establish in Colorado, increase the likelihood of nitrate run-offs that result in groundwater contamination. Given that the vast majority of rural Americans rely on groundwater as their primary source of drinking water, Farmers Union believes that environmental impact statements should be required as a condition to starting a large livestock operation. We also believe additional research and extension activities are needed in the area of best management practices for animal wastes from operations of all sizes.

III. Issues Related to International Trade.

National Farmers Union's concerns on livestock issues in the international arena are based both in economics and in consumer health and safety. We believe they deserve a separate place in our statement because of the importance of the General Agreement on Tariffs and Trade (GATT) negotiations.

The long-term goal of the GATT is to eliminate "trade-distorting subsidies" which, as far as livestock is concerned, could make the Federal Meat Inspection Act, Section 301, and other unfair trade practice remedies primary targets.

Another professed goal of the GATT is to "harmonize health and safety standards." This was largely at the insistence of the U.S. negotiators who were seeking to overturn the European ban on meat hormones, which is admittedly based on consumer preference rather than any scientifically-grounded health or safety problem.[26] Farmers Union is concerned that a broad application of "harmonization" could result in lowering U.S. health and safety standards for feed and food products, even as the levels of imports increase dramatically.

The House Committee on Energy and Commerce Subcommittee on Oversight and Investigations recently issued a report entitled "Hard to Swallow: FDA Enforcement Program for Imported Food," stating that about 2% of the 1 million food product imports into the U.S. in 1987 were actually physically inspected. Of them, 40% were rejected for some reason ranging from improper labeling to spoilage to the presence of pesticides banned for use in this country. The report also estimated that approximately 12.5% of the rejected shipments ended up on American dinner tables anyway due to the government's inability to follow through with destruction or re-export. How much greater will this food safety threat be at higher import levels? Our food safety standards are among the highest in the world, yet there has been a double standard between domestic production and imports due to the lack of inspection. Shouldn't American producers at least have a level playing field in their own country?

Mr. Chairman, Farmers Union is concerned about a broad range of economic, health, and trade issues pertaining to the livestock sector of American agriculture, and we appreciate the opportunity to present them to you today. Our concerns have also been presented to the Packers and Stockyards Administration and the Department of Justice. Many of these issues can be addressed by the 1990 farm bill, and we pledge our assistance to you in that effort in any way possible. I would be happy to address any questions you might have.

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[26] The effects of concentration and its ability to hurt competitiveness in an industry are apparent even in the relatively specialized market of selling hormone-free beef to the Europeans. A September 9 article in the Des Moines Register announced that Excel is negotiating with the Europeans to provide the entire 10,000 metric ton quota set for high-quality beef imports. This would eliminate several smaller operators who have already been producing for that market niche. And, by providing the entire quota, Excel could undermine the efforts of U.S. negotiators to have the Europeans reconsider their position on the basis of scientific evidence.

Senator BAUCUS. We are going to have to be pretty quick with the final two witnesses.

Thank you both very much.

The final two are Jeanne Charter and Lee Eikermann. First I want to compliment Jeanne. Montana is celebrating its centennial this year, our 100th birthday. We had a centennial cattle drive. I rode across Jeanne's ranch on that cattle drive just last week. I want to thank Jeanne for making the ranch available. We very much appreciate it. Jeanne's husband Steve was very much a part of the cattle drive, too. In fact, I borrowed Steve's halter, and I hope he got his halter back.

Ms. CHARTER. Not yet.

Senator BAUCUS. He will get it back.

Either one first, I do not care, but I am going to have to hold you back to about 2½ minutes each.

STATEMENT OF JEANNE CHARTER, MEMBER, BOARD OF DIRECTORS, NORTHERN PLAINS RESOURCE COUNCIL, WESTERN ORGANIZATION OF RESOURCE COUNCILS, BILLINGS, MT

Ms. CHARTER. Mr. Chairman, I guess what you said is what we have been hoping you would say, is that you would go after the situation with the packing.

Our feeling personally is, you need to look at it, we agree, but what you will find we need is vigorous enforcement of the antitrust laws and beef them up if they need it.

CENTRALIZATION MUST BE VIGOROUSLY OPPOSED

In terms of our organization, WORC, on down to Northern Plains in Montana, if we leave a thought with the farm bill all together, it is that anything that takes our country and our agricultural system more toward centralization must be vigorously opposed. We need a new line of attack. It is something the Russians are backing away from.

EQUIPMENT AND CHEMICALS ARE NOT THE MIRACLE

Meanwhile, you know, the talk is that industrialization is progress in this country for agriculture. We do not believe it. It is not equipment and it is not chemicals that are the miracle of this country. It is independent producers.

I think you know that, but everybody else is going to have to remember it.

Senator BAUCUS. I appreciate that, Jeanne, very much. And you are right. I think it is good to dust off that study that Howard mentioned by Congressman Neal Smith. More than that, I plan to hold field hearings on this issue.

Ms. CHARTER. We will do anything we can to assist getting a full look at this and make it not an issue that the major producers have not thought about yet because they are going to.

Senator BAUCUS. Thank you.

Mr. Eikermann.

STATEMENT OF LELAND EIKERMANN, MEMBER OF THE EXECUTIVE BOARD OF NATIONAL FAMILY FARM COALITION, BOURBON, MO

Mr. EIKERMANN. Thank you, Mr. Chairman. It is good to be here.

Senator BAUCUS. I apologize for the time constraint, because the vote is doing this to us. Your full statement will be in the record and, believe me, it will get full consideration.

Mr. EIKERMANN. Most of the things that have been mentioned are in my statement, but there are two or three points that nobody has really addressed that I would like to talk about.

Senator BAUCUS. Go ahead.

NATIONAL SECURITY

Mr. EIKERMANN. Number one is national security. In the concentrated food industry, if we would have a national disaster or an economic embargo such as an oil embargo, the people in this country would be out of food in 3 or 4 days.

I think that we need to pull the things back out of concentrated processing into more regional type processing and start growing our food more in the areas where it is consumed. Most of us consume what we do not produce and produce what we do not consume.

ENVIRONMENTAL CONCERNS

Our environmental concerns, which a lot of it comes from the overuse of petroleum and overprocessing and over moving of the food around the country, we could help our environment a whole lot by being on a more regional basis with our food production. As we get more concentrated, of course, we move away from this.

EFFICIENCY THING

Dr. Grimes hit on the efficiency thing just a little bit. After about a two-person operation, the efficiency comes from exploiting of labor and unfair tax policies. As you know, the packing workers have a real bad time. They use them like a machine, till they are incapable of working, and then they throw them out.

HISTORY LESSON

One thing I think we could look at is this. As a history lesson, the Roman Empire existed for 11 centuries until they let their agriculture get concentrated and the work be done by slaves. And that was the final downfall of the Roman Empire. And I think we have moved into that position in a little over two centuries in this country.

As we let concentration take over, we see higher poverty levels in the country and, more or less, slave labor. The farmers are working for very little on these contract operations. They cannot take care of their families like they should be.

THE RURAL ECONOMY IS FALLING APART

The rural economy is falling apart. You can see all kinds of empty buildings. Since the 1985 farm bill we have lost about 500,000 family farms.

I think the very strength of this country is in the family farm system.

Senator BAUCUS. There is no doubt about that.

I very much thank you, Lee, for your very valuable contribution.

Without objection, your prepared statement will be inserted into the record.

[The prepared statements of Ms. Charter; Richard Cross, the Power River Basin Resource Council; Lincoln Reinhiller, Dakota Resource Council; Roxanne Kerkvliet, Dakota Rural Action; and Mr. Eikermann follow:]

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Testimony for the Hearings of the Senate Subcommittee on Agricultural Production and Stabilization of Prices

Submitted by the Western Organization of Resource Councils
15 September 1989

Mr. Chairman and members of the Committee:

Thank you for the opportunity to submit testimony on behalf of the Western Organization of Resource Councils, a coalition of grassroots organizations concerned with the preservation and enhancement of economic and natural resources. I am also submitting testimony on behalf of the Northern Plains Resource Council, Dakota Rural Action, the Dakota Resource Council, and the Powder River Basin Resource Council. I request that their testimony be written into the record.

Our testimony is focused on the growing problem of concentration and vertical integration in the livestock feeding and meat processing industries. This has adverse effects on family-farm agriculture, rural communities, workers, consumers, and the environment.

We believe the following actions should be taken to curb the increasing monopolization of food production in the United States, including (1) enforcement of antitrust laws, (2) regional field hearings on the impacts of monopoly power in the industry, and (3) enactment of a farm bill which raises commodity loan rates and establishes bushel-based supply management.

We believe that the threats posed to livestock producers and consumers by the monopolization of the meat industry are well summed up by John Helmuth, an economist at Iowa State University:

> "When a few large firms buy, slaughter and sell the meat products from most of the livestock produced by farmers, these few firms are in a position to control the price they pay for livestock, control the quality of meat produced, and control the price of meat products they sell. Such firms are motivated to pay the lowest possible price for farmers' livestock, produce the minimum quality meat product that consumers will accept, and charge the highest possible price for the meat products they sell."

A series of buyouts and mergers in the 1980s has left the meat processing industry in the hands of a few corporations. Three firms -- IBP, ConAgra, and Cargill (Excel) -- slaughtered 70% of the fed cattle in the U.S. last year. Their control over fed cattle slaughter is expected to reach 80% next year. In order to ensure a steady supply of cattle to their packing plants, the Big Three are forward contracting with commercial feedlots and putting cattle on feed themselves. This increases the costs of production for smaller packers by further tying up supplies. Many more will be driven out of business, increasing the grip which the Big Three have over the nation's beef production.

The vertical integration of the big packers in the cattle feeding and beef industry is complemented by their horizontal integration into related meat and food industries. IBP, ConAgra and Cargill are also the top three pork processors; ConAgra is the largest lamb processor and flour miller; Cargill controls one-quarter of the world's grain trade and is the nation's number one egg producer, number two soybean crusher and flour miller, and number three corn and wheat miller.

This concentration of economic power threatens the future of independent family farm livestock operators, may soon lead to unjustified retail price increases, is incompatible with attempts to develop a sustainable, environmentally-sound agricultural system, raises serious concerns about food safety and quality, and is detrimental to workers and communities:

* Monopoly power reduces prices paid to livestock producers. According to Purdue University economist John Connor, "when concentration crosses...50 to 60 percent, there is a statistically significant relationship between that and lower prices paid to producers." The packers are able to manipulate prices by working the futures market and forcing it to rise or fall depending on whether they are selling or buying cattle. In many local and regional markets, only one or two buyers are bidding for cattle, further limiting competition and influencing prices in the corporations' favor.

* Monopoly power results in higher consumer prices. To increase their profit margins, the major meatpackers are encouraged to increase retail prices while at the same time lowering prices paid to cattle producers. A House Committee on Small Business report in 1980 stated that between 1965 and 1978 "the oligopoly of meatpackers had annually inflated the retail price of beef by an average of 25.1 cents, thereby accounting for 30% of all meat prices during the period." Concentration in the industry has doubled since that report was written. Once the big packers begin to market brand-name beef, retail prices will rise to reflect advertising costs. By diversifying into related food producing industries, the meat processors present consumers with fewer and fewer choices at the meat counter. They do not have to be as concerned about holding down beef prices when they are also producing pork, lamb, and poultry.

* Monopoly power creates serious environmental and health impacts. Concentrated livestock feeding operations depend on a

steady stream of antibiotics, hormones, and other feed additives to prevent the spread of disease and increase the rate of weight gain. As IBP, ConAgra and Cargill start marketing their own brands in retail stores, they will demand a uniform product from ranchers, forcing them to control the feeding process with more hormones and additives. Concentrated livestock production eliminates the possibility of integrating livestock and crop production and turns livestock manure from a natural fertilizer into a huge waste disposal problem, contaminating water supplies and creating noxious odors.

* Monopoly power is detrimental to workers and communities. Consolidation in the meatpacking industry has forced many packing plants to close their doors, increasing unemployment and reducing the tax base in many midwestern communities. Communities which are trying to keep packing plants are often forced to give the big corporations major utilities discounts and tax breaks. In return the corporate packers have slashed wages by an average of 40% in the past several years. In order to increase production, chain speeds on production lines have been accelerated, increasing accident rates in what is already one of the most dangerous occupations in America.

Recommendations

In short, the monopolization of the livestock feeding and meat processing industries exploits workers, communities, consumers, and livestock producers. This process is contributing to the rapid decline of family farm and livestock operations which form the backbone of the rural economy. Independent feedlots and meatpackers are being forced out of business, accelerating the decline of rural communities.

While the big packers argue that concentration is necessary in what is a high-volume, low-margin industry, it is not necessary for three firms to have a virtual stranglehold on the industry. There is room in the industry for many large firms which can achieve sufficient economies of scale in large plants. The much greater competition which this would create would be beneficial for smaller packers, livestock producers and consumers.

We make the following recommendations to this committee in urging you to prevent the consolidation of a centralized, monopolistic food production system in the United States:

1. Enforcement of Federal Antitrust Laws. We strongly urge that the government enforce existing antitrust provisions in the Clayton Antitrust Act, Sherman Antitrust Act and the Packers and Stockyards Act of 1921, and that appropriate legislation be drafted as needed to restore a competitive food production system in this country.

2. Regional Hearings on the Impacts of Monopoly Power in the Livestock Feeding and Meat Processing Industries. We recommend that the Congress hold regional hearings in the important cattle-producing areas of the U.S. in order to hear testimony and collect information pertaining to the impact of monopoly power in the livestock feeding and meat processing industries on rural communities.
3. Raising Commodity Prices and Managing Supply. ConAgra and Cargill are major grain trading corporations as well as feedlot owners and meatpackers. Because they do not produce grain, and instead profit from the volume of grain which they can trade or feed, these corporations and other corporate feedlots have an interest in federal farm policies that provide them with an abundance of grain priced below the cost of production. Such a farm policy has allowed firms like Cargill and ConAgra to reap windfall profits, thus financing their takeover of firms in the packing industry. This has also given an unfair advantage to corporate feedlots, which can purchase grains for less than it costs family farmer-feeders to produce the grain that they use for feed. This is to the detriment of family farmers in the U.S. and around the world, who are interested in fair and stable farm commodity prices. Therefore we urge the Congress to pass a farm bill which which supports the family farmer and rural communities by managing supply and raising commodity prices to levels which cover the costs of production and provide a fair return to the producer.

Thank you again for this opportunity to submit testimony to the committee. We look forward to your prompt action on each of the above proposals, before it becomes too late to stop the decline of rural America.

Jeanne Charter
Western Organization of Resource Councils

Testimony for the Hearings of the Senate Subcommittee on Agricultural Production and Stabilization of Prices

Submitted by the Powder River Basin Resource Council
15 September 1989

Mr. Chairman and Members of the Subcommittee:

The recent monopolistic concentration of the meat processing and distribution industry has caused a great deal of concern to livestock producers. When a corporation or group of corporations captures the controlling share of the market for a popular consumer product, they tend to become self-serving and eventually dictate price levels. The individual livestock producer is then left with little or no control over the price received for his product.

Similar situations have arisen in the past and the government has successfully restricted those activities. A most recent case involved Iowa Beef Processors (IBP) when it bought the Blue Ribbon Packing Company in 1969. The Justice Department brought anti-trust action against IBP and had IBP agree to a consent decree in 1970 that included divesting itself from Blue Ribbon Packing Co. and being prohibited from any acquisition of slaughtering or processing plants in Iowa, Nebraska, Minnesota, or South Dakota until 1980. Today's situation is much more ominous and IBP is still a large player.

The effects of this concentration are already becoming evident in eastern Colorado, where some small farmer-feeders have not been able to sell their slaughter-ready cattle. The packing plants have all the cattle they need and are not bidding on any others. This practice will soon force the small feeders out of business or into a contract with the packers, thus assuring more market control for the huge companies.

We share this concern with many individuals and groups, including a number of the stockgrowers associations, and endorse the goals of the Western Organization of Resource Councils (WORC) to stop this concentration. These goals, aimed toward the "Big Three" companies - Conagra, IBP and Cargill - are to:

1. Restrict their respective and collective shares of beef, lamb, and pork slaughter;
2. Prevent their further vertical integration into feeding livestock or retailing meat;
3. Prohibit predatory pricing designed to weaken competing small packers, feeders, or retailers; and
4. Prohibit monopolistic pricing practices that harm livestock producers and consumers.

In light of these goals, we strongly encourage the Senate Agriculture Committee to hold hearings at various locations throughout the country to receive testimony on this matter. Following such testimony we hope that existing laws will be enforced and/or new legislation passed to break this concentration.

Thank you for your consideration of this important issue.

Signed,
Richard Cross
Member, Agriculture Committee
Powder River Basin Resource Council

Testimony for the Hearings of the Senate Subcommittee on Agricultural Production and Stabilization of Prices

Submitted by the Dakota Resource Council
15 September 1989

Mr. Chairman and members of the Subcommittee:

Thank you for this opportunity to submit testimony on behalf of the Dakota Resource Council. The Dakota Resource Council is a grassroots membership organization of farmers, ranchers and small businesspeople dedicated to the preservation of rural communities and the agricultural economy. Since it began in 1978, DRC has worked to empower North Dakotans to take an active role in the decision-making processes which affect our lives.

The majority of our members have some sort of cattle operation, from the small herds in the eastern part of the state to the larger operations in the badlands. The fact that IBP, ConAgra and Excel (Cargill) control as much of the beef packing industry as they do has been a source of concern to our members for some time.

Bruce Marion, professor of agricultural economics at the University of Wisconsin, has claimed that the beef industry has become a tight oligopoly. In such an oligopoly, "the behavior of any one firm can have a significant impact on the market, on prices, and on competition...you begin to get more coordinated competitive behavior between the major actors and less vigorous competition in prices".

One area of concern in the industry is the practice of forward contracting of cattle supplies that the big three packers are implementing. Since IBP and Cactus Feeders made their deal, forward contracting has moved into the forefront. When one of the big three packers can contract ahead of time for the bulk of its cattle from one large feeder, it cuts down on the market share for the smaller independent feeder operation. As forward contracting becomes more popular, it leaves less and less of a niche for the small independent feeder. Also, forward contracting makes price discovery a very inexact science. With growing numbers of cattle changing hands from feeders and packers through forward contracting, it is very difficult for cow-calf producers to know if they are receiving a fair price for their cattle because most of these contract sales are not fully reported.

Many cattle producers are worried that with continued concentration in the packing industry the amount that they will receive for cattle will go down. As market players shrink, and cattle supplies grow, competition levels will suffer. Cow-calf producers are also alarmed that as forward contracting becomes more widespread, and as the packers are able to fill more and more of their quotas through forward contracting, the already limited control which producers have over the prices they receive for cattle will be reduced. Many fear that the combination of concentration in the packing business and forward contracting will put them into a situation where they have no say over who they sell to or what price they receive.

It is odd to see the theory advanced that fewer players in the beef market will lead to more competition. In almost every sales ring commercial, the main selling point for the ring is that they have the most buyers, and as a result, the producer who sells their cattle there will receive the most prices.

We make the following recommendations to this committee in urging you to prevent the consolidation of a centralized, monopolistic food production system in the United States:

1. We strongly urge federal action to enforce the anti-trust laws.
2. We urge a change in federal farm policy that would establish a fair market price of at least 70 percent of parity with supply management to prevent the large corporate feedlots from obtaining cheap grain at the expense of family farmers.
3. Field hearings should be held to allow grassroots family farmers to voice their concerns over this important issue.

Thank you for the opportunity to submit testimony to this subcommittee.

Lincoln Reinhiller
DRC Farm Preservation Committee Chairman

Testimony for the Hearings of the Senate Subcommittee on Agricultural Production and Stabilization of Prices

Submitted by Dakota Rural Action
September 15, 1989

Mr. Chairman and Members of the Subcommittee:

Dakota Rural Action - DRA - is a grassroots membership organization of farmers, ranchers, church and small business people based in Brookings, South Dakota. We are an affiliate of the Western Organization of Resource Councils and a member group of the National Family Farm Coalition. When it began in 1987, DRA members dedicated themselves to halting the further centralization and industrialization of agriculture, based on the evidence that a system of locally controlled family farms and ranches is the optimal, most healthful way to produce food for our nation and keep our main streets thriving. But the alarming trend of concentration in the livestock feeding and meatpacking industries is taking us in the opposite direction.

In 1972 the four largest meatpacking firms controlled 29% of U.S. fed cattle market. By 1988, concentration had increased until only three firms - IBP (Occidental Petroleum), ConAgra and Excel (Cargill) - controlled 70% of the U.S. fed cattle market. Together, these firms control major shares of pork and lamb processsing, poultry processing and grain milling and marketing.

* IBP is the nation's largest beef and pork processor and is steadily increasing its market share in these industries.

* ConAgra is the #2 beef processor, the #2 pork processor, the #1 lamb processor, and the #1 flour miller in the U.S. It has acquired over 100 companies since the mid-'70s.

* Cargill, which owns Excel, controls 25% of the world's grain trade, is the #1 egg producer, #3 corn and wheat miller and owns one of the largest commerical feedlots (Caprock Industries) as well as extensive commodities, processing and storage facilities.

Some of these corporations exercise tremendous control over federal farm policy and have been the beneficiaries of the very low wheat and feedgrain prices set by the 1985 Food Security Act. An ever-dropping Commodity Credit Corporation loan rate has ensured a ready supply of cheap grain to Cargill and ConAgra, both of which operate huge feedlots with capacities of 273,000 head per year and 360,000 head per year, respectively. Cheap grain makes grass-fed beef less competitive in today's market. Cargill profited greatly in a federally subsidized wheat sale of $11 million to China in 1987. Cargill's 1986 net income of $410 million represented a whopping 66% increase over the previous year while farms were failing in record numbers in the midwest. According to a 1987 study conducted by the St.Paul-based Family Farm Organizing Resource Center (FFORC), Cargill alone made a total of $270,550 in PAC contributions to House and Senate races from 1981 - 86.

This is an example of the type of control that is exercised by these corporate giants. The effects on our members, and South Dakota producers and consumers, is a major concern.

*Monopoly control in the meatpacking industry reduces live cattle prices. A University of Wisconsin study showed that cattle prices are 10 - 23 cents per cwt lower for every 10% increase in packer concentration in a given market. IBP's presence in a regional market costs producers 44 cents per cwt.

"When a few large firms buy, slaughter and sell the meat products from most of the livestock produced by farmers, those few firms are in a position to control the price they pay for livestock, control the quality of meat produced, and control the price of meat products they sell. Such firms are motivated to pay the lowest possible price for farmers' livestock, produce the minimum quality meat product that consumers will accept, and charge the highest possible price for the meat products they sell."

(John Helmuth, antitrust economist, testimony before the Iowa State House of Representatives, 7 December 1988)

*Monopoly control in the meatpacking industry results in increased consumer prices. Perdue University Economist John Connor says that once the big corporations begin advertising their own brands heavily, prices will rise well above what they would have been in a competitive market place. Excel is starting to market brand name beef in Midwest supermarkets and its competitors are sure to follow. Beef packers don't need to be as concerned about holding down beef prices to compete with poultry and pork processors if they are also poultry and pork processors.

*Monopoly control in the meatpacking industry has serious community impacts. Unable to compete against this monopoly, hundreds of meatpacking plants have closed their doors in recent years undermining rural communities. Those communities able to attract corporate packers with tax breaks and incentives receive low wage, hazardous jobs in return.

We in South Dakota rejected this type of domination on November 8th of last year when voters overwhelmingly passed a measure to ban non-resident, non-family farm corporations from owning and operating land and facilities for hog production. Dakota Rural Action joined forces with over a dozen other groups, led by the South Dakota Pork Producers and the South Dakota Farmers Union to get this measure passed.

However, the statistics above show South Dakota's ban on coroprate ownership of farmland does not solve the problem. Enforcement of our federal anti-trust statutes would. Among other things, the Sherman and Clayton Antitrust Act and the Packers and Stockyards Act of 1921 lay out the framework to limit control of an industry by any one firm. The U.S. Justice Department and USDA have failed since the '70s to take any meaningful action that would halt monopoly control of the food industry. Court decisions in the 1980s have further eroded the effectiveness of these laws by rejecting the precendents established over 75 years of antitrust case law and enforcement actions.

A statement by Bill Jones, head of the USDA Packers and Stockyards Administration, appearing in the August 25, 1989 Sioux Falls, South Dakota ARGUS LEADER reflects the callous attitude at USDA today: "If and when there is a consensus in the country, this city will be sensitive." We don't believe that Mr. Jones' job is to decide when he is supposed to enforce the law - it's his job to do it.

Since USDA and the Justice Department aren't taking action, we've kicked off the Livestock Concentration Campaign as a statewide coalition effort. We are circulating a petition in South Dakota calling on our state leaders and Congressional delegation to work for strict enforcement of anti-trust laws so that the monopoly control of IBP, ConAgra and Cargill does not go on unchecked, killing fair competition. Our sister organizations in Montana, Wyoming and North Dakota have kicked off similar campaigns.

We're glad that the Senate Agriculture Committee is holding this hearing, as a way to begin to respond to this problem. You have many powers to use in stopping concentration, particularly as you begin writing the 1990 Farm Bill. Here are our recommendations:

1. Enforce federal anti-trust statutes and call on U.S. Justice Department and USDA officials to be accountable for their failure to ensure compliance with the law.
2. Hold field hearings on livestock concentration prior to writing the 1990 Farm Bill.
3. Write and pass a 1990 farm bill in Washington which raises prices of the CCC loan rate for wheat and feedgrains to cover the cost of production, plus a reasonable rate so that the major conglomerates can no longer buy cheap grain at our expense.

Thank you for holding this hearing. We look forward to meaningful Congressional action on this issue.

Roxanne Kerkvliet, Chairperson
Dakota Rural Action

National Save the Family Farm Coalition
80 F Street, N.W., Suite 714 Washington, D.C. 20001 (202) 737-2215

TESTIMONY OF LELAND EIKERMANN,

MEMBER OF THE EXECUTIVE BOARD OF NATIONAL FAMILY FARM COALITION

BEFORE THE SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

September 15, 1989

Thank you Mr. Chairman and members of the Committee. My name is Leland Eikermann. I am a diversified family farmer raising hogs, cattle, grains, forages, and vegetables in Bourbon, Missouri. I am a member of the Executive Board of the National Family Farm Coalition (NFFC), where I represent a statewide organization, the Farm Alliance of Rural Missouri. The NFFC has a membership of over 40 farm and rural organizations in 35 states who are committed to preserving and strengthening the family farm system of agriculture.

I appreciate the opportunity to be here today to present the concerns of the Coalition. We are alarmed at the changes taking place in the livestock industry. Family-size hog and cattle producers are facing tremendous difficulty. The number of farmers going out of business since the 1985 Farm Bill, 484,000, proves something isn't working. Cattle producers have seen a slight increase in prices lately. What people seem to forget is that these were the same prices we got for beef in 1979. And in 1979 our other costs were half as much as today. For example, in 1978 I bought a new pick-up for $7,500. Today that same pick-up costs $16,000. According to Oakville Feed and Grain Company, Oakville, Iowa, 3 out of 5 hog producers are losing money. For poulty growers in North Carolina, the largest chicken producing state, the average annual net income per farm is approximately $2,000.

One cannot talk about the state of livestock producers and prices without looking at the corporations involved in the industry and the changes taking place in meat packing, corporate feedlots and contract feeding. These changes have been rapid, occuring almost overnight. Concentration of ownership and vertical integration, which has been accomplished in the chicken industry, is now reshaping the cattle and hog industry. We think it's wrong, it's dangerous, and it needs Congress' attention.

Let me for a moment describe what is happening. Then I will tell you why this concentration is a problem for farmers, consumers and the country as a whole. Last, we have some concrete solutions that we would like you as leaders in the Senate to consider to help get us back on course.

By now nearly everyone knows that the chicken industry has transformed from a situation where 9 out of 10 farms in the country raised small flocks of chickens in 1950 to a situation where chickens are raised by growers who do not own the chickens but contract with big companies like Frank Perdue. Today chickens are produced and processed almost exclusively in the Southeast. In 1960, 286 firms were selling commercially raised fryers to retailers. Today there are 48.

In beef, the rate of concentration is unprecedented. The 3 largest beef packers, IBP, ConAgra, and Excell, a subsidiary of Cargill, have captured 77% of the beef market. Just 11 years ago, in 1977 4 companies controlled 27% of the market. This means that these companies can virtually dictate the prices producers will receive for their cattle. Because these companies also raise their own cattle in feedlots, they can affect prices. When prices start to rise, they can decrease their purchases from independent producers and rely on their own stocks. As supply increases and prices begin to fall they can buy from producers. A quote from the president of IBP, Bob Peterson tells the story,: "If we (IBP) feed cattle, the numbers will be large. Will it affect prices? You bet. If we place a million head of cattle on feed and prices were going up, do you think we would use our cattle or yours?"

Concentration of beef production into larger feedlots is increasing. According to USDA, feedlot capacity of over 16,000 head is on the increase. In a 13-state region, 31% of all fed cattle is raised from feedlots with greater than 32,000 head capacity. That is an increase up from 22% in 1980.

In hogs the same changes are now beginning to speed up. In 1977, 35% of all hogs were raised in feedlots greater than 500 head. In 1987, 57% of hogs were raised there. The emergence of contract feeding, similiar to that in the chicken industry, is of great concern. Large companies, like National Farms, Premium Standard Farms, Tysons are making plans to contract with growers. They are moving into the more economically depressed areas and offering contracts with promises of regular guaranteed income. One need only look at the poulty growers to see how much they benefit from contract feeding arrangements.

In slaughtering and processing hogs, producers are facing the same price-depressing situation: 4 companies control 31% of the market. Projections indicate that by 1993 they will control 60-70%. When a few large firms buy, slaughter and sell the meat products from most of the livestock produced by farmers, those few firms are in a position to control the quality of meat produced, and control the price of the meat products they sell. Such firms are motivated to pay the lowest possible price for farmers' livestock, produce the minimum quality meat product that consumers will accept, and charge the highest possible price for the meat products they sell. All such activities harm livestock producers. In such an environment livestock producers receive less than a competitive price for their animals, consumers receive a less than competitive quality product, and pay a more than competitive price for it.

I could go on and on with statistics and projections for the future. There are plenty of studies that can document the changes we are facing. But the point is the future we are getting ready for spells disaster for family farmers, rural communities, the environment, the taxpayer and the consumer. Such concentration of economic power in an industry on which we all depend - we all have to eat and buy food - is serious. Current farm policy tends to support large, centralized operations and to discriminate against small farms. This creates an illusion of efficiency and high productivity, but results in a rural economy which is in shambles, unable to support basic services such as schools, hospitals, or even farm supply stores, i.e. "the dying of rural America." One large farm may be able to feed thousands of people, but many family farms make a healthy rural economy. The more concentrated the farming operations are, the higher the level of poverty in the surrounding communities.

As large confinement operations replace family-size operations, people will be forced to take jobs as the corporations' workers or contractors with the corporations. Control over their standard of living and working conditions slips away. In the American ideal of a family farm agriculture, the independent farmer is expected to earn enough to allow him and his family to enjoy an American standard of living. Hired workers and contractors of poultry and hog giants will not usually be so privileged. The threat of respiratory problems after only 5 years of working in one of these confinements is also very real. In the Southeast, poultry growers call themselves "serfs on my own land."

What is the sense in concentrating food production by such distinct geographic regions and large centralized factory farms? In the event of any number of natural or man-made disasters, or hostile economic actions such as oil embargoes, a breakdown in our transportation system could disrupt the networks which supply vital materials to and distribute food from large centralized farms. A food system based on small farms serving consumers through local markets is resistent to disruption in times of emergency. It also offers the opportunity for many Americans to participate in the economy as producers.

The environmental problems associated with large feedlots are far worse than the impacts of diversified, decentralized livestock production. Animal manure generated in feedlots becomes a "waste problem" and source of water pollution rather than an valuable input and source of fertlizer that can be recycled on the land. As family farmers are forced out of raising livestock, animal manure, their natural source of fertilizer, must be replaced with chemical fertilizers, which are expensive and non-renewable. The chemical fertilizers only are so effective; eventually the soil loses much of its organic matter, erosion increases, the soil loses its water-holding capacity, and the run-off of the chemicals pollutes neighboring rivers and streams and contaminates groundwater. I have attached for your information the NFFC position paper on sustainable agriculture which speaks to adverse impacts of livestock concentration on the environment and what is needed to create a more sustainable agriculture system.

The consumer is in danger of unnecessarily higher priced meats as concentration leads to price setting. Economists have stated that whenever a four-firm concentration ratio goes over about 40 percent, you start observing firms being able to exercise monopoly or oligopoly power. Anything over 65 percent is considered highly concentrated. Equally important, the incidence of contaminated food is on the rise as factories process more and more in their goal of more profits. USDA estimates that 40% of chickens are contaminated with salmonella, a bacteria that poisoned 2.5 million people last year. Some plants have been found to have as high as 75% to 90% contamination. Processing lines have been increased to the point of 75 to 90 birds per minute. The result is the inspectors have less than one second per bird to approve or condemn. Animals raised in huge confinement operations are subject to greater exposure to disease, and therefore rely more heavily on antibiotics. What are the long-term health effects of consumption of meat containing these chemicals?

With the enormous feedlots, one must also raise the issue of animal welfare. Such unnatural conditions must create greater suffering. As a farmer, I know that we care for our animals well. How can a manager of 32,000 head of cattle provide the kind of husbandry that a family-size operation prides itself on?

The conventional economist's wisdom would have it that this concentration is evolving because it is naturally more efficient and therefore such change is inevitable. As in so many measures of economic efficiency, all of the costs are not being factored in. The costs of environmental clean-up, health care, social services as more regular folk lose their means of making a living have not been factored in. Furthermore, economy of size is only of value up to the size that can be managed by 2 persons. What appears to be greater efficiency in larger size operations is based on low returns to labor. But most importantly, these corporations are enjoying major taxpayer subsidies. It is these subsidies that make their business profits soar.

Our present federal farm program has ensured that grain prices are so low that it is cheaper to buy feed than it is to grow grain. Because grain prices are set by the government (through the setting of the non-recourse loan rate) at below cost of production, feedlots that purchase their grain are better off than farmers who grow their grain for their livestock. This also means that taxpayers are essentially paying one-half the feed costs of large feedlots and factory farms.

In addition, the federal ltax laws are set in such a way that large agribusinesses can describe themselves as a "family farmer" and use a system of accounting, known as cash accounting, instead of accrual accounting, that saves them millions of dollars each year. In one year alone, one agribusiness classified as a family farm used this accounting system and saved $130 million in taxes.

The National Family Farm Coalition has several suggestions for changes in policy that could be made to help move agriculture in this country toward sustainability in terms of economics, the environment, and shared power and control over our food resources. They are the following:

First and foremost, the 1990 Farm Bill should raise the loan rate for grain to cost of production. Coupled with an effective program of supply management that will determine production needs and be adminstered through issuance of marketing certificates instead of acreage set-asides, a higher loan rate would deliver true cost-of-production prices at the farmgate. This would virtually eliminate the competitive advantage now enjoyed by the large corporate feedlots.

Second, tax laws should be changed to require large corporations to use accrual accounting system. This would again remove an unfair economic advantage to food processors disguised as family farm livestock producers and bring in needed revenue to the U.S. Treasury.

Third, anti-trust laws should be enforced and an investigation should be made into the concentration and control in food industries. Anti-trust laws prohibit: action to monopolize trade or commerce; price discrimination which reduces competition; and acquisition of stock or assets of one corporation by another with the effect of reducing competition. Before the Reagan Adminstration, these laws were vigorously enforced. Under his Administration there were no challenges of discriminatory pricing, no challenges of conglomerate mergers, no challenges of vertical mergers, and only a few challenges of horizontal mergers. In light of the fact that there were 181 recognized mergers and acquisition in the food industry since 1981, the Bush Adminstration must do better than this.

Fourth, changes need to be made in the Packers and Stockyard Act to limit control by packers over the market. In addition the Act should cover requirements that poultry growers receive prompt and full payment when their birds are picked up by the integrators. With this change, integrators would have to pay based on live weight or building space rather than on feed conversion rations which pits grower against grower.

Fifth, Congress should appropriate direct economic development funds to support the development of community-based free-range chicken, hog or beef production, marketing, processing and distribution. This would provide a healthier bird, healthier processing workers, healthier local economies, and better conditions for farmers.

Sixth, fair federal standards for contracts with farmers should be set , which would include a guarantee of base price, continuation of delivery of chickens or hogs, continuation of original terms of contract, and help with negotiations of contracts for farmers.

Seventh, govern drought relief and other government programs (including relief from avian flu epidemic) to be fair to the growers as well as the integrators. In the past, the integrators received certification and other drought relief while the farmers got nothing. This will be important to apply to hog contractors as well as poulty contractors.

Eighth, require that lenders not finance new operations of chicken houses or hog/beef confinement buildings when they have outstanding loans on empty buildings.

In closing I would like to sum up our concerns borrowing from the comments of agriculture economist Harold Breimyer: Livestock and poultry are basically foragers. They convert resources that otherwise are without value into meat, milk, eggs, wool, and hides for human consumption. Only an affluent nation can afford to pen the critters, sanitize their crowded quarters and feed them nutritionally perfect and costly diets. But that's what we do as family farmers are gradually displaced from animal agriculture.

It doesn't have to be this way. I would re-emphasize that while the 1985 Farm Bill doesn't have a program for livestock producers, its commodity programs have directly encouraged accelerated change in the livestock industry. Grain prices set below the cost of production give the corporate feedlots a strong advantage over any producer that raises his own feed. This is the fundamental problem in the livestock industry today -- cheap grain.

We look forward to working with you over this next year to pass a 1990 Farm Bill that meets all of our shared goals.

Senator **Baucus**. I thank all witnesses who have testified.

The hearing is adjourned.

[Whereupon, at 11:59 a.m., the subcommittee recessed, to reconvene at 10:11 a.m., Thursday, September 21, 1989, in room SR-332, Russell Senate Office Building.]

PREPARATION FOR THE 1990 FARM BILL

Feed Grains

THURSDAY, SEPTEMBER 21, 1989

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:11 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor, chairman of the subcommittee, Hon. Tom Harkin, presiding.

Present or submitting a statement: Senators Pryor, Harkin, Conrad, Daschle, Baucus, Kerrey, Cochran, Boschwitz, Bond, and Gorton.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN [presiding]. The Committee on Agriculture, Nutrition, and Forestry and the Subcommittee on Agricultural Production and Stabilization of Prices will come to order.

This is the second in the series of hearings regarding the commodity programs, and this morning's hearing is going to cover the whole area of feed grains, regarding the upcoming 1990 farm bill.

The Chairman has indicated his desire to get most, if not all, of these hearings out of the road this year and get much of the work done on some of this stuff before the year ends, so that we can get a good start on it early next year.

Today's hearing on the feed grain program is one in a series this subcommittee is holding to help craft the new farm bill. I might point out that we have a full slate of very outstanding witnesses today, so we will move right along, in order to give everyone a fair opportunity to testify. I will try to keep my remarks brief, but I do want to make a few points.

The two most important goals of any farm bill are to provide for this Nation's food security and to help achieve adequate levels of farm income. Let me make it clear from the beginning that, to this Senator, food security is every bit as important to this country as military security.

We are all very thankful to have a food system in this country that has never failed us, but we will not have a food security system that will not fail us in the future unless our farmers have adequate incomes. So, adequate farm income has long been one of my interests in the farm programs.

Commodity target prices have been on a downward trajectory for the past several years, and that means a dollar-for-dollar reduction in farm income. Our farmers are facing a squeeze between rising costs on one side and falling income on the other side. Frankly, if these trends continue, I am very concerned that we can be headed for another round of farm bankruptcies and foreclosures similar to what we had just a few years ago.

Yet, some, including this administration, continue to call for cuts in our support to agriculture, saying that commodity program spending is at an historically high level. Well, I think we have to put this in the proper perspective, and let us use real dollars adjusted for inflation.

This year, commodity programs make up only about 1 percent of total Federal spending. In 1970, that figure was 2.5 percent, so that 1 percent is not out of line with historically what this country has been doing to support agriculture.

On other points, environmental and conservation issues will undoubtedly play an important role in the farm bill, and I hope that all of you that will be testifying will address those two issues, conservation and environmental concerns.

We will hear testimony today on the connection between these issues and our commodity programs, and we will be looking at ways to provide more planting flexibility to our producers. If there is one thing I hear from my farmers all the time, it is that they feel hamstrung, they need more flexibility to make their own decisions on what to plant, and our challenge is to shape that kind of a program, to make sure that we have that flexibility and, again, meet the conservation and environmental concerns that not only consumers have, but also our producers have.

The farm bill also must coordinate our domestic programs with the U.S. role in international markets. We must work to eliminate unfair subsidies and barriers to U.S. exports of agricultural commodities, but we must be careful to avoid taking actions in the name of free trade that would, in fact, hurt our farmers in world markets.

Finally, I hope that we can find ways to simplify farm program paperwork and regulations. I have been alarmed in the last few years at the number of personnel that are now working just to serve the farmers and the amount of paperwork that farmers have to fill out. As I had one farmer tell me in Iowa, he said, you know, it is getting so I cannot go to the bathroom, but I have got to go down to the ASCS office and fill out a paperwork form for it, it is getting about that bad. So, we have got to find some way to try to reduce these regulations and the amount of paperwork that farmers have to fill out.

So, those are just my initial observations. Before I recognize my friend and colleague from North Dakota, I am going to announce to all assembled here that, while I was going to chair this whole hearing, as I told some people before the hearing, the majority leader has asked me to bring up an appropriations bill on the floor at 11 o'clock this morning and, as the Chairman of that appropriations subcommittee, I must respond to that, so I have to be on the floor and so I am going to be here just for a few more minutes and then

I will turn the chair over to my distinguished colleague from North Dakota, Senator Conrad.

[The prepared statement of Senator Baucus follows:]

Prepared Statement of Hon. Max Baucus, a U.S. Senator From Montana

Mr. Chairman, I want to thank you for holding this hearing. It gives us the opportunity to consider two important issues: the treatment of Malting barley under the farm program and the oat program.

Currently, the farm program treats Malting barley—barley used for brewing—and Feed barley as though they were the same crop

This results in serious inequities since the price of Malting barley can be twice as high as the price of Feed barley.

This has cost Montana farmers dearly.

Last year, the drought drove up barley prices far above the level we expected at the beginning of the year.

As a result, farmers were obligated to repay a portion of the advance deficiency payments they had received at the beginning of the growing season.

But Feed barley and Malting barley were lumped together in these calculations even though the Feed barley price was far lower than the Malting barley price.

This forced Feed barley growers to repay far more than the market price justified.

The shoe was on the other foot in calculating disaster payments. Once again, Malting barley and Feed barley were considered the same crop. Thus, those Malting barley disaster payments that were made were far lower than they otherwise would have been.

Now, Malting barley producers have found other problems in the operation of the disaster bill.

But clearly the current practice of lumping Feed barley and Malting barley together is creating inequities. In drafting the 1990 farm bill, this committee must look for a way to ensure that these problems do not come up again.

We must also reexamine the oat program.

Americans now realize that eating oats and oat products reduces blood cholesterol levels. Consequently, the United States has had a tenfold increase in the demand for oats in recent years.

But oats production has not kept up with demand.

In fact, production within the United States has fallen steadily. In the 1950's, the United States produced 1.4 billion bushels of oats each year. In 1988, this total had dropped to 210 million.

The imbalance between supply and demand is so great that we have been forced to import large quantities of oats from abroad to keep up with the demand; a record 60 million bushels in 1988.

It would take 4 to 6 million additional acres of harvested oats to meet domestic demand in the coming years.

This is incredible! Oats is the ~~only~~ major grain imported into the United States!

The decline in domestic oat production is directly related to the current farm program which encourages farmers to raise grain products other than oats because of increased program benefits.

Farmers are hesitant to risk loss of base acres in one commodity by switching to a lower target-priced commodity where the program benefit may be less. Since oats has a lower target price, the return to farmers has been less. However, many farmers who choose to raise other grain products could raise oats on the same land.

Since 1985, the Secretary of Agriculture has had discretionary authority to allow farmers to switch up to 10 percent of their crop bases from one commodity to another without risk of program benefits loss. However, the Secretary has not allowed farmers to exercise this option.

Additionally, the Conservation Reserve Program has withdrawn significant amounts of oats acreage from production.

There are other reasons to grow oats besides farm program benefits. Domestic oats have a higher protein content than those that are imported.

Oats are an excellent rotation crop because they reduce the need for use of fertilizers and pesticides and, consequently, there is less ground water contamination. Finally, oats help control erosion problems.

Taken all together, it is clear that the Congress and USDA should do whatever is necessary to encourage the American farmer to grow oats. My legislation provides the Secretary of Agriculture with a number of options to accomplish this goal. I would like assurances from the Department that they will administratively do whatever is necessary to make it viable for American farmers to grow oats.

I plan to work to see to it that the 1990 farm bill addresses these problems.

Senator HARKIN. Senator Conrad, do you have some opening remarks?

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Just briefly.

Mr. Chairman, I would echo the remarks that you have made. Clearly, on an historical basis, the share of Federal spending going to support agriculture is very modest, and my sense is that somehow the reality and the facts have not caught up with the perception.

From 1986, when we were at a relatively high level in dollar terms of Federal commitment to agriculture, there has been a dramatic reduction. In fact, if you look at agriculture, no part of the Federal budget has contributed more to deficit reduction than agriculture. It seems to me that it is very important that message go out, as we start working on a 1990 farm bill.

I also think, Mr. Chairman, that we cannot embark on this endeavor without keeping very clearly in mind the implications of the GATT negotiations. Clearly, those negotiations are critical for the worldwide structure of agriculture, and I think we should be using these hearings as an opportunity to send a message to our own negotiators, as well as those who are competitors, that it is time for them to take on some of the burden of set-asides, conservation reserve programs and other measures of idling some of the productive base that we all share. So, Mr. Chairman, I hope we take this opportunity to do that.

With that, in interest of the time and the heavy schedule we have, I will conclude.

[The prepared statement of Senator Conrad follows:]

PREPARED STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

MR. CHAIRMAN. I want to express my appreciation for your calling these important hearings on the 1990 farm bill.

Feed grains are very important to the agricultural economy of North Dakota. While oats and corn are very important, barley both Feed barley and Malt barley, are major crops. Recent evidence indicates that the feed value of barley relative to corn is undervalued in the calculation of target prices. In addition, in spite of having the capacity to produce much more oats, we are importing large quantities. It seems clear that the oats target price needs to be adjusted upward.

Rather than give a long statement concerning feed grains issues, I would like to provide some statistics concerning net farm income for all of agriculture and for selected farm States.

As you can see in the following three tables, net farm income in the 1980's reached record lows. Many States saw declines of 50 to 60 percent in net farm income between the 1970's and 1980's. For many States, this meant that net farm income fell to about 50 percent or less of the national median family income. These are shocking statistics, but they clearly reveal the level of economic decline in agricultural areas.

TABLE I.—U.S. NET FARM INCOME BY DECADE: 1910-1989

[Average per year in constant 1982 dollars—in billions of dollars]

Decade	Average net farm income
1910's	$51.2
1920's	36.8
1930's	31.1
1940's	65.8
1950's	47.6
1960's	36.2
1970's	41.3
1980's	28.8

Source: USDA. Adjusted for inflation by the implicit GNP deflator.

TABLE II.—AVERAGE NET FARM INCOME PER YEAR IN THE 1960's, 1970's, AND 1980's

[In billions of dollars]

	1960's	1970's	[1] 1980's	Percent decline from—	
				1960's	1970's
States:					
Illinois	$2.04	$2.51	$1.19	−42	−53
Indiana	1.22	1.39	.48	−61	−65
Iowa	2.56	2.71	1.32	−48	−51
Minnesota	1.55	2.16	1.17	−25	−46
Mississippi	.87	.80	.40	−54	−50
Missouri	1.17	1.27	.56	−52	−66
North Carolina	1.49	1.50	1.03	−31	−31
North Dakota	.73	1.17	.44	−40	−62
South Carolina	.44	.36	.16	−64	−56
South Dakota	.82	.99	.53	−35	−46

[1] Data for 1989 was not available. Average income for 1980's includes only 1980 through 1988 (9 years).

TABLE III.—NET FARM INCOME AS PERCENT OF MEDIAN FAMILY INCOME—1980's

	Average net farm income per farm (1982 dollars) [1]	Percent median family income ($24,736) [2]
States:		
Illinois	$12,796	52
Indiana	5,926	24
Iowa	11,892	48
Minnesota	12,188	49
Mississippi	8,333	34
Missouri	4,912	20
North Carolina	13,553	55
North Dakota	12,941	52
South Carolina	5,818	24
South Dakota	14,521	59

[1] Based on number of farms in 1985 according to USDA.

[2] Average median family income for the 1980's is in constant 1982 dollars and is averaged over the years 1980 to 1987.

Sources: State Financial Summary, 1988, Economic Indicators of the Farm Sector, Economic Research Service, USDA (ECIFS 8-2); Farm Income Data: A Historical Perspective, Statistical Bulletin No. 740, Economic Research Service, USDA; and Statistical Abstract of the United States, 1989, 109th Edition, Bureau of the Census, U.S. Department of Commerce.

Senator HARKIN. Thank you, Senator Conrad.

I now welcome and recognize our distinguished colleague from Missouri, Senator Bond.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator **Bond**. Thank you very much, Mr. Chairman. I know this is a very busy day and a full schedule.

I would concur with the things that I just heard from Senator Conrad, that throughout the 1985 farm bill we have been able to bring down costs, particularly in the feed grains area. There are a number of changes that have been recommended by farmers and the farm academicians in my State. I am going to be interested to hear what the witnesses have to say and will pursue with them some of the ideas that have come about.

I thank you, Mr. Chairman, for convening this hearing and I look forward to hearing what the witnesses have to say.

Senator **Harkin**. Thank you, Senator Bond.

We will bring our first witness up, Bruce Weber, Director of the Commodity Analysis Division of the ASCS, of the U.S. Department of Agriculture.

Again, since I have to be on the floor here very shortly with the appropriations bill, I will turn the chair over to Senator Conrad.

Thanks again.

Senator **Conrad** [presiding]. Welcome, Mr. Weber.

Mr. **Weber**. Thank you.

Senator **Conrad**. As always, if you would prefer to summarize your remarks, the full text of your written remarks will be made part of the record.

STATEMENT OF BRUCE R. WEBER, DIRECTOR, COMMODITY ANALYSIS DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Weber**. Thank you, Mr. Chairman. I will do that.

INTRODUCTION

Mr. Chairman and members of the committee, I welcome the invitation to appear here today to discuss feed grain issues in the context of the new farm bill. We in USDA are pleased to work with the Congress to forge a meaningful piece of legislation.

Feed grains—corn, sorghum, barley, and oats—are among the major agricultural commodities produced both in the United States and the world. A healthy U.S. grain complex is a key to the overall economic well-being of U.S. agriculture. I will focus my remarks today on the state of the sector at the end of the 1980's and what this portends for the 1990's, particularly with respect to policy issues we are likely to face during the upcoming debate.

TRENDS IN FEED GRAIN SUPPLY AND USE

The U.S. feed grain situation has undergone a number of fundamental changes, linked to developments both here and abroad, over the past 20 to 25 years. For example, countries such as Taiwan and South Korea, once minor players in feed grain trade, are now major importers. The EC, a large feed grain importer in the late 1960's and still an importer until the early 1980's, is today a large net exporter. These developments, in turn, have had far-reaching effects on the shape of the U.S. feed grain sector.

World feed grain grade nearly tripled during the past quarter century and has gone through three distinct stages. In the 1960's, there was a period of slow, steady growth in world trade, averaging around 40 million tons during the latter part of the decade.

In the seventies, it was marked by a larger and more volatile trade levels. The decade began with world trade at about 45 million tons and ended with trade around 100 million tons. An important factor in the seventies trade story was the decision by the Soviet Union to increase meat production, a decision that required importing large quantities of feed grains.

Although the trade picture has recently brightened, the 1980's have been a period of general stagnation, with trade trending downward from the record high set in 1980. The problems contributing to the downturn include worldwide recession, high domestic price supports and the strong dollar that kept U.S. and world export prices high, debt problems in developing countries, world surpluses of wheat and other feed grain substitutes, as well as the slower growth in world livestock numbers.

The U.S. exports of feed grains mirror the world trade trends. Our exports peaked at the start of the 1980's at 71 million tons. In 1985–86, the last year of the Agriculture and Food Act of 1981, U.S. exports fell to 37 million tons. Since then, strengthening world demand and more competitive prices have brought U.S. exports up to the 60–62 million-ton range. The U.S. share of volume in the world feed grain trade is now around 65 percent, but this is still 10 percent below a decade ago.

Because exports tend to be more volatile and gain most of the public's attention, we sometimes forget that almost three-fourths of U.S. feed grain production is consumed domestically, primarily as livestock and poultry feed.

There is no discernible trend in the domestic feed use. For example, feed use of corn averaged 4.0–4.5 billion bushels a decade ago, and even today we are still at about that same level. Shifts in the American diet from red meat to poultry, combined with efficiency gains, underlie this minimal growth in feed use. This trend in U.S. consumer preferences will be a fundamental factor in the feed grain market for the foreseeable future.

The food, seed, and industrial uses of feed grains grew rapidly in the 1970's and 1980's from one-seventh to nearly one-fourth of domestic feed grain use. This gain in use was sparked by increasing amounts of corn being used in the manufacture of high-fructose corn syrup and in alcohol production. However, growth in these markets has slowed in recent years.

While total use of U.S. feed grains has registered impressive gains over the past two decades, gains in productive capacity have been even more impressive.

Consider also that the record total disappearance of U.S. feed grains—235 million tons in 1987-88—has been eclipsed by production in 6 of the last 10 years, despite acreage limitation programs that were in effect 8 of those 10 years.

The Food Security Act of 1985 attempted to correct the supply-demand imbalance that had emerged in feed grains during the first half of the 1980's. Lower feed grain loan rates served to boost sagging exports and domestic feed use; exports jumped 26 percent in 1986–87, and have continued to increase, even with last year's drought. Helping to maintain exports was the use of commodity certificates which made producer loans and government stocks accessible to the market, that otherwise were not.

On the supply side, acreage reduction program percentages, which are based on estimated stock levels, have also helped to scale back production. Additionally, the 1988 drought has led to a major role in drawing stocks down. Thus, the current feed grain situation and outlook is in some ways radically different from the conditions addressed by the 1985 act.

CURRENT SITUATION AND OUTLOOK FOR FEED GRAINS

I hope to make a point today, by reviewing the history of farm legislation, that legislation should not be based on the circumstances existing in any single year. The global markets in which the programs authorized by new farm legislation will operate will reflect macroeconomic conditions, constraints raised by U.S. and foreign environmental and food safety issues, budget deficit concerns, and the provisions of the bill itself.

The U.S. feed grain harvest for 1989 is forecast up 45 percent, from last year's drought-reduced crop.

This year's U.S. corn crop is projected at 7.3 billion bushels. The corn use may slightly exceed production, implying a further drawdown in stocks to about 1.7 billion bushels. In contrast, beginning with the 1986 crop, we were carrying 4 billion bushels of corn, so the situation has changed considerably.

The current tighter situation, brought on by weather, masks the underlying supply realities. In the 1990's, the same forces will be in play as in the 1980's—the importance of growth in use and trade to balance gains in productivity.

EVOLUTION OF FEED GRAIN FARM POLICY

We anticipate that the next farm bill will address trade and market balance by aiming for more market orientation and flexibility in planting decisions. The history of farm bills reveals a long history of striving to achieve these goals.

The Agricultural Act of 1970, which eliminated rigid individual crop acreage controls, authorized a set-aside program for feed grains and other program crops. Except for maintenance of set-aside and a conserving base, farmers' planting decisions were unrestricted.

Even more flexibility was embodied in the Agricultural and Consumer Protection Act of 1973, which established target prices to support farm income. The 1973 act continued the set-aside concept and promoted flexibility by making crop specific payments, whether or not the program crop was planted and regardless of which crop was planted.

The 1973 act redefined direct payment programs in two profound ways. First, the amount of direct payments varied inversely with market prices, so the Government assumed the risks of making deficiency payments at an unknown rate; with a preset maximum response. Earlier direct payment programs had fixed payment rates in advance. Second, the basis for income support shifted from the parity price concept toward a cost of production concept with rules being established to adjust annual target prices in relation to changes in average production costs.

Another new concept in the 1973 act was the introduction of the disaster payment program. The disaster payment program was a recognition that farmers' revenues depend on both market prices and crop yields. However, the disaster payment program was slated to be replaced with the Federal crop insurance in the 1980's, but, as we know, the disaster program concept was renewed again in 1988 and 1989, because of the extreme droughts.

Grain prices were coming down from the abnormally high levels of the early 1970's when the Congress considered legislation to modify the 1973 act. Although stocks remained below 1960 levels, commodity prices had not kept pace with production costs, resulting in a cost-price squeeze. The response to these conditions, as embodied in the Food and Agriculture Act of 1977, was to set target prices on the basis of commodity-specific costs of production.

A significant and far-reaching change in the 1977 act was to extend target price coverage to current plantings of a crop, moving away from payments based on fixed acreage, regardless of plantings. The 1977 act also introduced the normal crop acreage (NCA) concept, in an attempt to correct this distortion, but in doing so made the target price more important in producer planting decisions and market prices less important.

The 1981 act was also debated under circumstances of falling farm income, as well as soaring inflation. The focus of the debate was on price and income supports and methods for annually adjusting their levels. Thus, minimum target price levels were established for the 1982 through 1985 crops. These minimum levels increased about 6 percent per year, reflecting anticipated inflation rates.

After the enactment of the 1981 act, a decrease in annual inflation rates and increases in deficiency payments soon brought about efforts to reduce target prices below levels established in the 1981 act.

The 1981 act also reestablished acreage bases for individual crops, reflecting recent plantings of those crops. The crop-specific acreage bases were expected to result in more effective acreage reduction programs and permit USDA to be more selective in limiting production of program crops. But they also created inflexibility in farmers' planting decisions.

The development of the new farm legislation in 1985 took place under conditions of serious financial stress for many farmers. Between 1982 and 1985, the United States has suffered a significant loss of export markets, accompanied by growing surplus stocks and escalating Government cots. The 1985 act aimed to make the United States more competitive in foreign markets by reducing price support loans for grains, oilseeds, and cotton. Farm income support was maintained by freezing target prices at 1985 levels for the 1986 and 1987 crops, and then allowing them to slowly decline thereafter.

An immediate effect of the target price and loan rate provisions of the 1985 act was to make farm programs more important to farm income and crop production decisions. Participation in voluntary acreage reduction programs reached record levels. Overall, the act did aim at gradually reducing the influence of farm programs by allowing target prices to fall about 10 percent from 1986 to 1990.

ISSUES

Feed grain policies have tried to address several basic goals: maintenance of farm income; adequate food supplies; competitiveness in the export markets; U.S. reliability as a supplier; and limited government costs.

But these goals have also raised other issues: such as stocks and reserve policy; target price coverage; relative and absolute levels of target prices; disaster assistance versus crop insurance; planting flexibility; and acreage reduction programs.

At the heart of the goals and issues are the mechanism of setting target prices, acreage covered by target prices, planting flexibility, and stocks policy.

The truth is that, after 15 years of experience, we still have difficulty setting relative and absolute levels of target prices. On average, target prices for corn and most other program crops are now above total economic costs of production, including a return to land. Thus, farmers have to have an incentive to grow program crops, such as grains and cotton, instead of nonprogram crops, such as soybeans.

The production potential on the feed grain acreage base at current target prices exceeds domestic and export needs. Although enrollment of land in the CRP has reduced bases, the primary way of matching program crop production with total use continues to be use of acreage reduction programs. However, current use of acreage reduction programs has limited the flexibility of farmers that need to switch from crops in excess supply to those in relatively short supply.

Increased program flexibility would allow U.S. farmers to grow more soybeans, oats, wheat, and other crops that are now in relatively short supply. Achieving flexibility may require addressing both acreage bases and relative target prices. We also need to look at how target prices are set for the minor feed grains. Are there other, more appropriate criteria other than a percentage of the corn target price based upon relative feed values?

The declining of U.S. production of oats suggests to some that oats cannot compete with other grains on the basis of current target prices. The sharp increase in U.S. oat imports in recent years and the fact that we have had several special programs for oats reinforce this view. An issue in the barley program is how to properly reflect the nonfeed use component in setting the target price relative to corn. Perhaps we need to explore whether U.S. agriculture would be better served by having separate programs for the individual feed grains, rather than the blanket program under current legislation.

Stocks policy also needs to be reexamined. Current farmer-owned reserve release prices are unrealistically high. In addition to reserve policy, appropriate storage levels and financing need to be examined in the context of global demand. Sufficient stocks are required to fulfill the fundamental objective of having adequate food supplies and being reliable suppliers to the world.

In contrast to its avowed purpose, the farmer-owned reserve (FOR) has been used as a price support mechanism. Examples include the changes in the FOR rules following the grain embargo in January 1980 and increasing FOR loan rates and allowing early entry in 1982.

The foremost issue relating to the FOR is to clearly state its purpose. Events have shown that using the FOR for farm income and price support purposes leads to stock accumulation and loss of export market share.

Finally, there are still other issues that must be considered. The current sugar program, together with tax subsidies for ethanol, have expanded the use of corn for high-fructose corn syrup and ethanol. However, potential for further expansion of high-fructose corn syrup in the sweetener market is limited. We need to further examine the viability of using corn to produce ethanol. Some worry that expanded ethanol production may create surplus by-product feeds which may not be needed in the livestock sector.

Ethanol, the FOR, target prices and loan rates, and crop acreage bases are major issues that the Department hopes to work out with the Congress. In doing so, we hope to learn from the history of farm bills and address basic, rather than temporary issues. We continue to strive toward the basic goals of market orientation and flexibility, but remain mindful of the difficulties others have encountered. We will work with you to surmount these difficulties.

This concludes my testimony, Mr. Chairman. I will be happy to respond to questions.

[The prepared statement and attached material, letter from Senator Baucus, and responses of Mr. Weber follow:]

STATEMENT OF BRUCE R. WEBER, DIRECTOR, COMMODITY ANALYSIS DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Mr. Chairman and Members of the Committee, I welcome the invitation to appear here today to discuss feed grain issues in the context of the next Farm Bill. We in USDA are pleased to work with the Congress to forge a meaningful piece of legislation.

Feed grains -- corn, sorghum, barley, and oats -- are among the major agricultural commodities produced both in the United States and the world. A healthy U.S. feed grain complex is a key to the overall economic well being of U.S. agriculture. I'll focus my remarks today on the state of the sector at the end of the 1980's and what this portends for the 1990's, particularly with respect to the policy issues we're likely to face during the upcoming debate.

Trends in Feed Grain Supply and Use

The U.S. feed grain situation has undergone a number of fundamental changes, linked to developments both here and abroad, over the past 20-25 years. Changes in agricultural trade policies and domestic farm programs combined with economic development to expand the world feed grain market sharply and change its players. For example, countries such as Taiwan and South Korea, once minor players in feed grain trade, are now major importers. The EC, a large feed grain importer in the late 1960's and still an importer until the early 1980's, is today a large net exporter. These developments in turn have had far-reaching effects on the shape of the U.S. feed grain sector.

World feed grain trade nearly tripled during the past quarter century and has gone through three distinct stages. The 1960's were a period of slow, steady growth with trade averaging around 40 million tons during the latter part of the decade.

The 1970's were marked by much larger and more volatile trade levels. The decade began with world trade around 45 million tons and ended with trade around 100 million tons. An important factor in the 1970's trade story was the decision by the Soviet Union to increase meat production, a decision that required importing large quantities of feed grains.

Although the trade picture has recently brightened, the 1980's have been a period of general stagnation, with trade trending downward from the record high set in 1980. The problems contributing to the downturn include worldwide recession, high domestic price supports and a strong dollar that kept U.S. and world export prices high, debt problems in developing countries, world surpluses of wheat and other feed grain substitutes, and slower growth in world livestock numbers. In the past few years, some of these problems have eased and trade has begun to expand again.

U.S. exports of feed grains mirror these trends in world trade. Our exports peaked at the start of the 1980's at 71 million tons. In 1985/86, the last year under the Agriculture and Food Act of 1981, U.S. exports fell to 37 million tons. Since then, strengthening world demand and more competitive prices have brought U.S. exports up to the 60-62 million-ton range. The U.S.

share of volume in the world feed grain trade is now around 65 percent, up from 45 percent in 1985/86, and near the share enjoyed a decade ago. Nevertheless, our level of exports is still 10 percent below a decade ago as world trade recovers slowly from the lows of the early and mid-1980's.

Because exports tend to be more volatile and gain most of the public's attention, we sometimes forget that almost three-fourths of U.S. feed grain production is consumed domestically, primarily as livestock and poultry feed.

There is no discernible trend in the domestic feed use. For example, feed use of corn averaged 4.0-4.5 billion bushels a decade ago, roughly the same as a normal season's use now. Shifts in the American diet from red meat to poultry, which takes less grain per pound to produce than pork or beef, combined with efficiency gains underlie this minimal growth in feed use. This trend in U.S. consumer preferences will be a fundamental factor in the feed grain market for the foreseeable future. Hence, the largest market for U.S. feed grains -- domestic livestock feeding -- has been at best a slowly growing market.

Food, seed, and industrial (FSI) uses of feed grains grew rapidly in the 1970's and 1980's from one-seventh to nearly a fourth of domestic feed grain use. This gain in use was sparked by increasing amounts of corn used in the manufacture of high-fructose corn syrup (HFCS) and in alcohol production. However, growth in these markets has slowed in recent years. From 1980 to 1984, FSI uses of feed grains rose nearly 40 percent; from 1984 to 1988, the increase was less than 20 percent.

While total use of U.S. feed grains has registered impressive gains over the past two decades, gains in productive capacity have been even more impressive. Per acre yields have chalked up steady gains, and feed grain acreage rose sharply in the late 1970's in response to strong market prices and relaxation of acreage controls. As prices weakened in the early 1980's, acreage planted to feed grains remained at previous high levels, because price and income supports were favorable. In 1985, just 2 years after the massive PIK diversion, corn production was record high.

Consider also that the record total disappearance of U.S. feed grains -- 235 million tons in 1987/88 -- has been eclipsed by production in 6 of the last 10 years, despite acreage limitation programs that were in effect in 8 of those 10 years.

The Food Security Act of 1985 (1985 Act) attempted to correct the supply-demand imbalance that had emerged in feed grains during the first half of the 1980's. Lower feed grain loan rates served to boost sagging exports and domestic feed use; exports jumped 26 percent in 1986/87 and have continued to increase, even in face of the 1988 drought. Helping to maintain exports was the use of commodity certificates which made commodities that had been pledged as collateral for price support loans and other government stocks accessible to the market. Feed use rose sharply at first, but the drought cut feeding in 1988/89.

On the supply side, acreage reduction program (ARP) percentages which are based upon estimated stock levels have also helped to scale back production. And, the 1988 drought has led to a large drawdown in stocks. Thus, the current feed grain situation and outlook is in some ways radically different from the conditions addressed by the 1985 Act.

Current Situation and Outlook for Feed Grains

I hope to make a point today, by reviewing the history of farm legislation, that legislation should not be based on the circumstances existing in a single year. The global markets in which the programs authorized by new farm legislation will operate will reflect macroeconomic conditions, constraints raised by U.S. and foreign environmental and food safety issues, budget deficit concerns, and the provisions of the bill itself.

This season, U.S. feed grain production is forecast to rebound sharply, pushing the global 1989/90 coarse grain crop almost 10 percent above a year earlier. Because of low carryin stocks from last year and expanded use, world coarse grain stocks may drop to their lowest level since 1983/84.

The U.S. feed grain harvest for 1989 is forecast up 45 percent, as a result of both higher yields and acreage. Further, improved growing conditions have increased the forecast yield per acre 27 percent above last year.

Total U.S. use in 1989/90 is projected to be up 2 percent and to exceed production. Domestic use is expected to rise by more than total use, but exports may decline under the pressure of foreign competition. With use likely to exceed production, U.S. stocks could fall close to a tenth. However, prices are also expected to decline from last season's drought-related level.

This year's U.S. corn crop is forecast at 7.3 billion bushels, which added to beginning stocks and imports will provide a supply for 1989/90 equal to 1988/89. Use may slightly exceed production, implying a further drawdown in stocks to about 1.7 billion bushels. In contrast, corn carryover into 1986/87, the first year under the 1985 Act, exceeded 4 billion bushels.

The 1989 crops of sorghum, barley, and oats are all expected to exceed 1988 levels. Oat production in particular could rise nearly 75 percent which would allow a significant rebound in the use of oats.

The current tighter situation, brought on by weather, masks the underlying supply realities. In the 1990's, the same forces will be in play as in the 1980's -- the importance of growth in use and trade to balance gains in productivity.

Evolution of Feed Grain Farm Policy

We anticipate that the next farm bill will address trade and market balance by aiming for more market orientation and flexibility in planting decisions. The history of farm bills reveals a long history of striving to achieve these goals.

The Agricultural Act of 1970, which eliminated rigid individual crop acreage controls characteristic of previous programs, authorized a set-aside program for feed grains and other program crops. Except for maintenance of set-aside and a conserving base, farmers' planting decisions were unrestricted.

Even more flexibility was embodied in the Agricultural and Consumer Protection Act of 1973 (1973 Act), which established

Minimum target prices were established for the 1982 through 1985 crops. These minimum levels increased about 6 percent per year, reflecting anticipated inflation rates. After the enactment of the 1981 Act, a decrease in annual inflation rates and increases in deficiency payments soon brought about efforts to reduce target prices below levels established in the 1981 Act. The Agricultural Programs Adjustment Act of 1984 capped target prices for feed grain crops at their 1984 levels through 1985.

The 1981 Act also re-established acreage bases for individual crops, reflecting recent plantings of those crops. The crop-specific acreage bases were expected to result in more effective acreage reduction programs and permit USDA to be more selective in limiting production of program crops. But they also created inflexibility in farmers' planting decisions. In the mid-1980's when participation rates in acreage reduction programs reached the 85-90 percent level, the acreage base concept locked in production patterns in much the same way as the acreage allotments had under earlier programs. The high participation rates were a result of the high target prices in relation to the lower loan rates and market prices.

The development of new farm legislation in 1985 took place under conditions of serious financial stress for many farmers. Between 1982 and 1985, the United States had suffered a significant loss of export markets accompanied by growing surplus stocks and escalating Government costs. The 1985 Act, which established farm policy for 5 crop years, 1986-90, aimed to make the United States more competitive in foreign markets by reducing price support loan rates for grains, oilseeds, and cotton. Farm income support was maintained by freezing target prices at 1985 levels for 1986-87 and allowing for slowly declining target prices thereafter.

An immediate effect of the target price/loan rate provisions of the 1985 Act was to make farm programs more important to farm income and crop production decisions. Participation in voluntary acreage reduction programs reached record rates. Overall, the Act did aim at gradually reducing the influence of farm programs by allowing target prices to fall about 10 percent from 1986 to 1990.

Issues

Feed grain policies have tried to address several basic goals:

- Maintenance of farm income
- Adequate food supplies
- Competitiveness in export markets
- U.S. reliability as a supplier
- Limited government costs.

But these goals have raised other issues:

- Stocks and reserve policy
- Target price coverage
- Relative and absolute levels of target prices
- Disaster assistance vs. crop insurance
- Planting flexibility
- Acreage reduction programs

At the heart of goals and issues are the mechanism of setting target prices and acreage covered by target prices, planting flexibility, and stocks policy.

The truth is that after 15 years of experience we still have difficulty setting relative and absolute levels of target prices. On average, target prices for corn and most other program crops are now above total economic costs of production, including a return to land. Thus, farmers have an incentive to grow program crops, such as grains and cotton, instead of nonprogram crops, such as soybeans.

The big expansion in the amount of production eligible for target price coverage resulted from the current plantings concept written into the 1977 Act. The expansion in acreage of feed grains and other crops in the late 1970's was built into program crop acreage bases established under the 1981 Act and continued under the 1985 Act.

The production potential on the feed grain acreage base at current target prices exceeds domestic and export needs. Although enrollment of land in the CRP has reduced bases, the primary way of matching program crop production with total use continues to be use of acreage reduction programs. However, current use of acreage reduction programs has limited the flexibility farmers need to switch from crops in excess supply to those in relatively short supply.

Increased program flexibility would allow U.S. producers to grow more soybeans, oats, wheat, and other crops that are now in relatively short supply. Achieving flexibility may require addressing both acreage bases and relative target prices. We also need to look at how target prices are set for the minor feed grains. Are there other, more appropriate criteria than a percentage of the corn target price based upon relative feed values?

Declining U.S. production of oats suggests to some that oats cannot compete with other grains on the basis of current target prices. The sharp increase in U.S. oat imports in recent years and the fact that we have had special programs for oats reinforce this view. An issue in the barley program is how to properly reflect the non-feed use component in setting the target price relative to corn. Perhaps we need to explore whether U.S. agriculture would be better served by having separate programs for the individual feed grains rather than the blanket program under current legislation.

Stocks policy also needs to be reexamined. Current farmer-owned reserve release prices are unrealistically high. In addition to reserve policy, appropriate storage levels and financing need to be examined in the context of global demand. Sufficient stocks are required to fulfill the fundamental policy objective of having adequate food supplies and being reliable suppliers to the world.

In contrast to its avowed purpose, the farmer-owned reserve (FOR) has been used as a price support mechanism. Examples include the changes in FOR rules following the grain embargo in January 1980 and increasing FOR loan rates and allowing early entry in 1982.

target prices to support farm income. The 1973 Act continued the set-aside concept and promoted flexibility by making crop specific payments whether or not the program crop was planted and regardless of which crop was planted. Deficiency payments were made based upon acreage allotment established for a crop, and nearly complete substitution among crops was permitted without loss of deficiency payments.

The 1973 Act redefined direct payment programs in two profound ways. First, the amount of direct payments varied inversely with market prices so the Government assumed the risks of making deficiency payments at an unknown rate, with a preset maximum response. Earlier direct payment programs had fixed payment rates in advance. Second, the basis of income support shifted from the parity price concept toward a cost of production concept with rules being established to adjust annual target prices in relation to changes in average production costs.

Another new concept in the 1973 Act was disaster payments. Participating producers in the wheat, feed grain, and upland cotton programs who were prevented from planting any portion of allotments or who suffered yield losses from natural disaster received a payment based on a percentage of the target price. The disaster payment program was a recognition that crop farmers' revenues depend on both market prices and crop yields. The disaster payment program was slated to be replaced by Federal crop insurance in the 1980's, but the disaster program concept was renewed in response to extreme drought in 1988 and again in 1989.

Grain prices were coming down from the abnormally high levels of the early 1970's when Congress considered legislation to modify or extend the 1973 Act. Although stocks remained below 1960's levels, commodity prices had not kept pace with production costs, resulting in a cost-price squeeze. The response to these conditions as embodied in the Food and Agriculture Act of 1977 (1977 Act) was to set target prices on the basis of commodity-specific costs of production.

A significant and far-reaching change in the 1977 Act was to extend target price coverage to current plantings of a crop. Under the 1973 Act, grain producers had received deficiency payments based on their historic acreage allotments, regardless of how many acres of wheat or feed grains they actually planted. In many cases, allotments were out of line with current planting patterns. The 1977 Act introduced the normal crop acreage (NCA) concept in an attempt to correct this distortion but in doing so made the target price more important in producer planting decisions and market prices less important.

The 1981 Act was also debated under circumstances of falling farm income as well as soaring inflation. The focus of the debate was on price and income supports and methods for annually adjusting their levels. The target price adjustment formula specified by the 1977 Act, which had been applied during a period of rapid inflation, had not boosted target prices enough in the eyes of agricultural interests. In fact, the Agricultural Adjustment Act of 1980, as interim legislation, discarded the adjustment formula and fixed 1980 target prices for wheat and corn.

The foremost issue relating to the FOR is to clearly state its purpose. Events have shown that using the FOR for farm income and price support purposes leads to stock accumulation and loss of export market share.

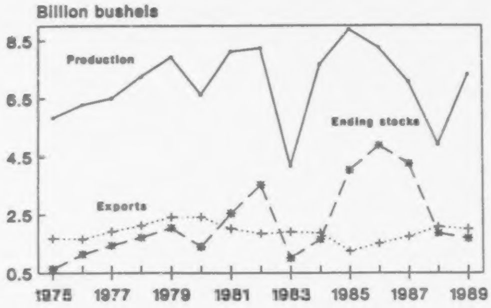
Finally, there are still other issues that must be considered. The current sugar program together with tax subsidies for ethanol have expanded the use of corn for HFCS and ethanol. However, potential for further expansion of HFCS in the sweetener market is limited as HFCS saturated the sweetener market in beverages. We need to further examine the viability of using corn to produce ethanol. Some worry that expanded ethanol production may create surplus by-product feeds which may not be needed by the livestock sector.

Furthermore, the EC has attempted to impose import restrictions on U.S. corn gluten, a by-product of ethanol production, to protect their domestic feed grain producers.

Ethanol, the FOR, target prices and loan rates, and crop bases are major issues that the Department hopes to work out with the Congress. In doing so, we hope to learn from the history of farm bills and address basic rather than temporary issues. We continue to strive toward the basic goals of market orientation and flexibility, but remain mindful of the difficulties others have encountered. We will work with you to surmount these difficulties.

This concludes my testimony, Mr. Chairman. I will be happy to respond to questions.

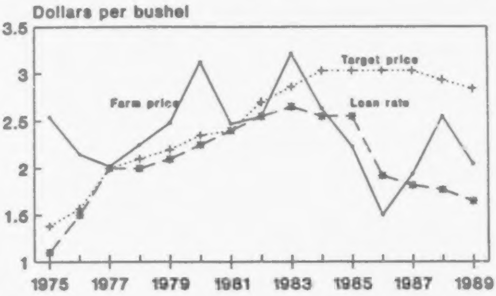
Corn: Production, exports, and ending stocks, 1975/76-1989/90



	1975	1977	1979	1981	1983	1985	1987	1989
Production ——	5.841	6.505	7.928	8.119	4.175	8.877	7.072	7.321
Exports ··+··	1.678	1.909	2.415	2.01	1.901	1.241	1.735	2
Ending stocks —*—	0.633	1.436	2.034	2.537	1.006	4.04	4.259	1.679

Marketing year beginning Sept. 1

Corn: Farm price, target prices, and loan rates 1975/76-1989/90

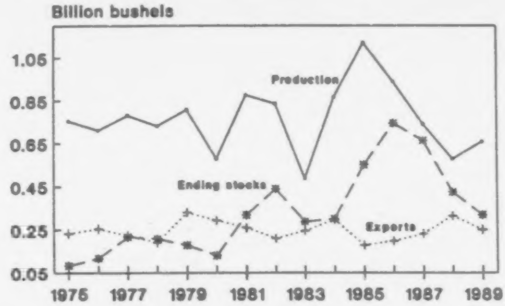


	1975	1977	1979	1981	1983	1985	1987	1989
Farm price ——	2.54	2.02	2.48	2.47	3.21	2.23	1.94	2.05
Target prices ··+··	1.38	2	2.2	2.4	2.86	3.03	3.03	2.84
Loan rates —*—	1.1	2	2.1	2.4	2.65	2.55	1.82	1.65

Marketing year beginning Sept. 1

Marketing year farm prices began Oct. 1
prior to 1986

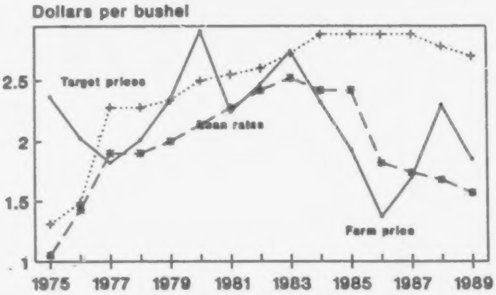
Sorghum: Production, exports, and ending stocks, 1975/76-1989/90



Production	—	0.754	0.781	0.807	0.876	0.488	1.12	0.739	0.659
Exports	··+··	0.232	0.223	0.33	0.26	0.245	0.178	0.231	0.25
Ending stocks	—*—	0.082	0.216	0.178	0.319	0.287	0.551	0.663	0.319

Marketing year beginning Sept. 1

Sorghum: Farm price, target prices, and loan rates 1975/76-1989/90

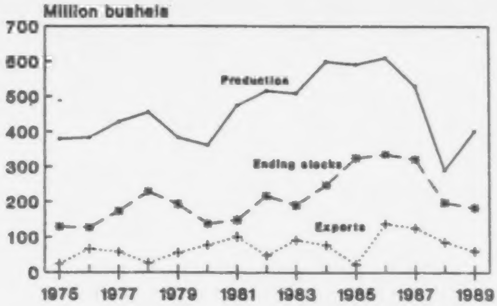


Farm price	—	2.369	1.82	2.346	2.246	2.738	1.932	1.697	1.85
Target prices	··+··	1.31	2.28	2.34	2.55	2.72	2.88	2.88	2.7
Loan rates	—■—	1.05	1.9	2	2.28	2.52	2.42	1.74	1.57

Marketing year beginning Sept. 1

Marketing year farm prices began Oct. 1
prior to 1986

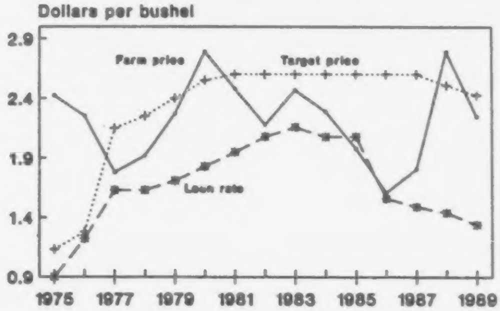
Barley: Production, exports, and ending stocks, 1975/76-1989/90



	1975	1977	1979	1981	1983	1985	1987	1989
Production —•—	379.2	427.8	383.2	473.5	508.9	591.4	529.5	401
Exports ··+··	23.8	57.2	54.8	100.1	91.5	21.8	125.3	60
Ending stocks —✱—	128.4	173.1	192.1	147.8	189.4	324.8	321.3	183

Marketing year beginning June 1

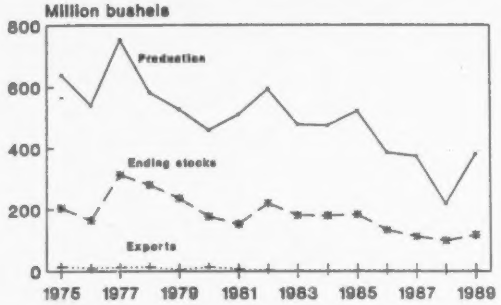
Barley: Farm price, target prices, and loan rates 1975/76-1989/90



	1975	1977	1979	1981	1983	1985	1987	1989
Farm price ——	2.42	1.78	2.27	2.48	2.47	1.98	1.81	2.25
Target prices ··+··	1.13	2.15	2.4	2.6	2.6	2.6	2.6	2.43
Loan rates —✱—	0.9	1.63	1.71	1.95	2.16	2.08	1.49	1.34

Marketing year beginning June 1

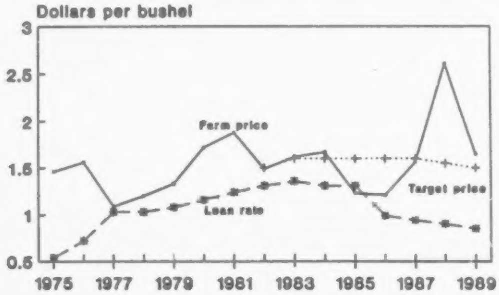
Oats: Production, exports, and ending stocks, 1975/76-1989/90



		1975	1977	1979	1981	1983	1985	1987	1989
Production	—•—	639	752.8	526.7	509.5	477	520.8	374	381
Exports	··+··	13.7	12.3	4.1	6.6	2.1	2.2	1.3	2
Ending stocks	—✱—	204.8	313.1	236.4	151.9	181.1	183.7	111.9	117

Marketing year beginning June 1

Oats: Farm price, target prices, and loan rates 1975/76-1989/90



		1975	1977	1979	1981	1983	1985	1987	1989
Farm price	—•—	1.46	1.09	1.33	1.88	1.62	1.23	1.56	1.65
Target prices	··+··					1.6	1.6	1.6	1.5
Loan rates	—✱—	0.54	1.03	1.08	1.24	1.36	1.31	0.94	0.85

Marketing year beginning June 1

Target prices for oats were initiated in 1982

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September 29, 1989

Mr. Bruce R. Weber
Director
Commodity Analysis Division
Agricultural Stabilization & Conservation Services
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Mr. Weber,

It was a pleasure having you testify before the Agriculture Subcommittee on Agricultural Production and Stabilization of Prices on Thursday, September 21, 1989. At this time, I would like you to respond to the following questions for the record:

1. I HAVE INTRODUCED LEGISLATION AIMED AT PROMOTING THE PRODUCTION OF OATS. WHICH OF THE PROGRAMS INCLUDED IN MY LEGISLATION WOULD THE DEPARTMENT SUPPORT? WHY?

2. SINCE 1985, THE SECRETARY OF AGRICULTURE HAS HAD AUTHORITY TO ALLOW FARMERS TO SWITCH UP TO 10% OF THEIR CROP BASE FROM ONE COMMODITY TO ANOTHER. THE SECRETARY, HOWEVER, HAS NOT ALLOWED FARMERS TO EXERCISE THIS OPTION. WHY NOT?

3. GROWING OATS ALSO HAS BENEFICIAL ENVIRONMENTAL CONSEQUENCES BY PREVENTING EROSION, REQUIRING LESS IN THE WAY OF FERTILIZERS AND PESTICIDES RESULTING IN LESS GROUNDWATER CONTAMINATION. FROM THAT STANDPOINT WHY ISN'T THE DEPARTMENT TAKING MORE AGGRESSIVE ACTION TO STIMULATE OATS PRODUCTION?

Please respond by October 5, 1989. Address your correspondence to:

Christine Sarcone, Chief Clerk
Senate Committee on Agriculture, Nutrition, and Forestry
328-A Russell Senate Office Building
Washington, D.C. 20510-6000

Your cooperation in this matter is greatly appreciated.

Sincerely,

Max Baucus

MSB/jlg

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RESPONSES TO QUESTIONS FROM SENATOR MAX BAUCUS BY BRUCE R. WEBER

Baucus. I have introduced legislation aimed at promoting the production of oats. Which of the programs included in my legislation would the Department support? Why?

Weber. Your bill, S. 1246, requires the Secretary to take one or more of five actions designed to increase the production of oats. USDA does not support any measures mandated by S. 1246 for the following reasons:

(1) The barley/oats base split has eliminated the incentive to plant barley in lieu of oats and thus should encourage more oats production. Any adjustments in/or realignment of payment rates for the various feed grains should be addressed in the 1990 farm bill deliberations.

(2) The 1990 feed grain target levels have been announced and were reduced by the same percentage as was mandated for corn, approximately 3 percent. This action is consistent with previous years decisions and still leaves the oats/corn target price relationship higher than its feeding value relationship to corn.

(3) For 1990, oat producers may designate any portion of their farm acreage base (excluding that portion designated as soybeans) as acreage base established for oats. This authority is contained in the Disaster Assistance Act of 1988 and thus permits the action mandated in part 3 of S. 1246.

(4) We do not believe it is appropriate to permit the production of oats on acreage idled under the announced acreage limitation programs. Such an action would undermine the intent of acreage limitation programs. Likewise, we have a long-standing policy of not permitting the production of crops, even those that could be authorized, on idled acreage. We believe sufficient other cropland is available for the production of oats.

(5) Permitting the production of oats on CRP acreage is not consistent with the conservation objective of the program, which is to remove highly erodible and fragile land from crop production.

Baucus. Since 1985, the Secretary of Agriculture has had authority to allow farmers to switch up to 10 percent of their crop base from one commodity to another. The Secretary, however, has not allowed farmers to exercise this option. Why not?

Weber. Implementing the 10 percent adjustment would encourage the shifting among CAB's to the crops with the greatest net returns supplemented by program benefits without regard to supply and demand factors, thus increasing program costs without addressing the oats supply imbalance.

Baucus. Growing oats also has beneficial environmental consequences by preventing erosion, requiring less in the way of fertilizers and pesticides resulting in less ground water contamination. From that standpoint why isn't the Department taking more aggressive action to stimulate oats production?

Weber. Under traditional cropping practices, survey data indicates that chemical use per acre is lower for oats than the other feed grains. However, if Government actions or market influences increased the return on oats substantially relative to other feed grains, producers would have an incentive to apply more chemical inputs per acre of oats planted to increase yields, thus negating the beneficial environmental consequences you state.

We believe the actions that have been taken for the 1990 crop are positive steps to help increase oats production. They are:

—split the combined barley/oats base under 1990 Feed Grain Program to prevent barley from encroaching further on oats base;
—excluding oats from limited cross compliance restrictions;
—keeping the oats acreage reduction percentage requirement below those of other feed grains; and
—permitting the transfer of other crop acreage bases to oats bases without loss of the original crop base.

The first two actions will enable producers to exceed their oats base and remain in the program for the other program crops. If producers do plant beyond their oats base, however, they will have to forgo program benefits on oats, but will build oat acreage base in a subsequent year.

Senator **Conrad**. Thank you for your testimony, Mr. Weber. I would characterize it as long on questions and short on answers.

I do not know what you were asked to do, but after hearing your testimony, I really have no idea of what the administration is suggesting in terms of answers to the questions that we confront:

What are the loan rates? What are the target prices? What are the set-asides?

I saw the other day that the Cheese Market News said that the Secretary does not intend to submit a complete farm bill. Do you have any knowledge of what the intentions are of the Department?

Mr. **Weber**. Mr. Chairman, I am not aware that the Department does not intend to present a bill. There is a major process under way at the Department right now to take a look at all of these issues and to develop a position, but those have not been completed at this point.

Senator **Conrad**. Well, let me ask some specifics, because I do not find them in the testimony. Can you give me some idea of what the proposals of the administration would be for 1990 on set-aside, for example? Do you have any idea of what the administration position would be on that?

Mr. **Weber**. At this point, I do not know. We are in the process and will be needing to make the decision on the 1990 feed grain program before next Friday.

Senator **Conrad**. How about the question of target prices, do you have any information for us on what you would propose in that area?

Mr. **Weber**. At this point, no.

Senator **Conrad**. Well, let me ask it in a little different way. Obviously, this is a major concern, what the administration's position on the target price question. The Congressional Budget Office, as you perhaps know, in their base line forecast of farm program spending assumes target prices will not be further reduced after the 1990 crop-year. Under that assumption, the corn target price would not go below $2.75.

I understand that USDA projections show consistent declines in the target price out through the years 1994. Can you tell me if you have knowledge of what the administration's projections are with respect to the corn target price?

Mr. **Weber**. The projections in the midsession review did show declining targets, yes.

Senator **Conrad**. Can you tell me what the target price would be for 1994 in that budget submission for corn?

Mr. **Weber**. Mr. Chairman, I do not have that with me.

Senator **Conrad**. Well, my understanding it is $2.39, and if that is incorrect, I would be glad to be corrected for the record. But my understanding of $2.39, does that sound in the ballpark to you?

Mr. **Weber**. That sounds in the ballpark, yes.

Senator **Conrad**. You know, if that is what we are talking about, if that is the administration's notion of where we are going, there is going to be an awful lot of people very upset, because there are not many farmers that can make it on $2.39 corn today, much less in 1994, after we have had 5 years of inflation, and so I hope—apparently, there is not a position yet, other than this one—that someone, in working on what the position will be, will go back to the drawing boards, because we cannot live with $2.39 corn in 1994. I can assure you of that.

I have been all over my State and asked the farmers—I took the projection numbers on wheat and corn and some of the other commodities, and I asked farmers, "can you make it on these prices?"

Unanimously, the answer was no. I did not have one farmer, in well over 1,000 farmers at these meetings, tell me they could make it on the price that USDA is projecting. So, I would hope that somebody would consider that.

I would like to follow up and ask, has there been, to your knowledge, any analysis done by USDA on the effect of sharply declining target price levels on producer income?

Mr. **WEBER**. There has been no specific analysis within the budget numbers that were put together. There is a look at producer income, yes.

Senator **CONRAD**. Now, there is an analysis or there is not an analysis or one is going to be done or has been done, or what?

Mr. **WEBER**. There is an analysis within each commodity when we put together the midsession review, and within that we do look at the net farm income for various commodities.

Senator **CONRAD**. So, there is a review that has been done?

Mr. **WEBER**. We did not look at it in——

Senator **CONRAD**. There is an analysis that has been done by commodity?

Mr. **WEBER**. Right.

Senator **CONRAD**. And can you reveal to us what that shows, what happened to producer income if, in fact, the administration's target price projections would come true?

Mr. **WEBER**. I am unable to tell you at this point. We can get back to you on it.

Senator **CONRAD**. Well, I would ask that that be submitted for the record. It seems to me, it strikes me as inconceivable that, in projecting what target prices are going to be, we do not have before us what the effect on producers will be. It seems to me that if you are putting together a policy, the results of that policy on producer income must be a major consideration.

Mr. **WEBER**. Certainly, within our considerations, that will be considered. All I can tell you at the moment, that policy and the discussions are under way and has not been completed.

Senator **CONRAD**. Well, the problem that I have with that answer, frankly, is that we have budget submissions that say this is the long-term plan of the administration, $2.39 corn in 1994, $3.30 wheat in 1994, and that is what they are telling us on the one side of the ledger. In order to tell us that, it would seem to me the Department would have analyzed very carefully what that means to producers across this country, because I know the result, the result is devastation. I have just asked my producers what it means to them. So, I hope that the analysis you refer to will be submitted for the record.

[The information referred to was subsequently provided for the record and follows:]

The assumptions for the fiscal year 1990 CCC midsession review assumed that target prices for the 1991 through 1993 crops would decline each year by the same percentage that the 1990 crop target price decreased from the 1989 crop target price. The annual decline assumed for wheat and corn were 2.5 percent and 3.2 percent, respectively. This process resulted in an assumed corn target for the 1993 crop of $2.50 per bushel.

Even with target prices declining—from 7 to 9 percent through the 1993 crop—gross producer income is expected to average about 3 percent higher than the 1989-

1990 crop-year average for wheat and is expected to be less than 4 percent lower for corn, during the 1991 through 1993 crop-years.

Senator CONRAD. Now, we have already gone substantially beyond the time allotted here. I would allow my colleague from the State of Missouri to ask whatever questions he might have, and then my colleague from Minnesota, and we will move on.

Senator BOND. Thank you very much, Mr. Chairman.

I would just say, as we get the complete assumptions from USDA, Mr. Weber, I hope they will include assumptions about market prices, set-asides, and other things that could have very important impacts. Certainly, I would hope that we would see a program which would develop a better market price for farmers as well as an opportunity to get that market price. Again, that is something that is extremely important when you are talking about prices. Are you talking about the target price being the ultimate price or are you talking about the market price?

I want to move into several things that have been raised very frequently in my discussions with farmers around my State. You have stated on page 6 of your prepared statement about the desirability of achieving flexibility, in terms of getting a return and as a way of providing more soybeans, oats, wheat and other crops in short supply.

I would just say that many of our farmers believe that flexibility is going to be extremely important for complying with the conservation compliance plans. Many farmers are not going to be able to continue their normal crop rotation and still come in compliance, so flexibility is important for conservation as well.

I note that on page 4 of your prepared testimony, you mention the normal crop acreage (NCA) concept. This has been recommended to me in many meetings and hearings around the State. You indicate that it made the target price more important in producer planning decisions and market price less important.

Now, I would like you to elaborate on that and explain whether you believe this statement would hold true when compared to the programs implemented under the current farm bill. In your opinion, what are the positive and negative aspects of adopting this concept under today's conditions, and then I want to follow up with perhaps some modifications that might be made.

Mr. WEBER. Well, under the NCA, as it was implemented in 1977—and the reason we say it made market prices more important is the fact that it gave producers essentially full flexibility to plant, but they were able to go ahead and plant, for instance, let us say wheat on the entire NCA and get target price protection on that full acreage planting, and that was basically the reasoning behind this, that it allowed them to use the target price and not necessarily plant in accordance to market signals, and we would hope that, under a flexibility approach, that we would be able to do that and have farmers reacting to the market signals, rather than necessarily target prices.

Senator BOND. On a related subject, you mentioned the Agriculture and Consumer Protection Act of 1973, I think you said promoted flexibility by making crop specific payments, whether the program crop was planted and regardless of which crop was planted.

What would you think the impact would be if you were to adopt such a system under the NCA concept? Would this give the type of help to farmers who would want to plant nonprogram crops, but could not afford to give up deficiency payments? How would this impact the mechanisms?

Mr. **Weber**. That is certainly an area that we are looking at. We are looking at several other proposals that deal with the issue of flexibility, and I would agree with you that some revisions would probably make this kind of program a more desirable approach.

Senator **Bond**. You also mentioned loan rates being a major issue in the upcoming farm bill, and we have run into those who criticize the nonrecourse loan program as being a boondoggle for the farmers. Now, USDA has addressed this issue somewhat through certificates, but I wonder what your thoughts are on nonrecourse loans and what would be the implications if nonrecourse loans were phased out over a period of time?

Mr. **Weber**. Well, I think the loans since the 1985 act have been trimmed down to the extent that they are not the market influence that they were a number of years back, and the major reason for the implementation of the certificate program was to try to access that grain into the market, because they were put under loan at very high levels and could not be brought out, and so the certificate program served as a purpose to be able to do that.

The issue of abandoning nonrecourse loans altogether, I would think that it is still a desirable program in the sense that it provides farmers interim finance, and we would hope that——

Senator **Bond**. What about recourse loans, though?

Mr. **Weber**. Recourse loans have been talked about. We kind of feel that there is not a lot of difference between a recourse loan and a nonrecourse, that if you get into market conditions where prices are at that level, it is going to be very difficult to get farmers to repay those loans, so we may not necessarily be acquiring them through a forfeiture, we may be acquiring them through some sort of takeover-type process.

Senator **Bond**. OK.

Mr. **Weber**. We are not certain that going strictly to recourse loans necessarily solves the problem.

Senator **Bond**. You obviously have raised a good number of questions, as the acting chairman has pointed out. I just want to hit on one final thing. You talked about the growth in food, seed and industrial uses, and you focused primarily on high-fructose corn syrup (HFCS) and ethanol. But what do you see as the potential disappearance from degradable plastics, road deicers and other uses?

Mr. **Weber**. Unfortunately, I cannot answer, as I do not know that much about it. I do know that there is quite an effort under way to look this, and it seems to me that it may have an impact and a way of being able to utilize some of these surplus stocks that we continue to have of feed grains.

Senator Bond. Thank you.

Thank you, Mr. Chairman.

Senator **Conrad**. Mr. Weber, if I might just go back to one other question that I think is important that we have on the record, and then we will go to my colleague from South Dakota, Senator Daschle, and Senator Kerrey from Nebraska.

You heard me refer earlier to the drop in program spending. Senator Harkin also referred to it. He referred to it as a percentage of our total Federal budget, pointing out that in the 1970's we were spending 2.5 percent of our Federal budget on support, we are down to 1 percent, and that really begs the question. How much further does farm spending have to fall, in the administration's view? That is, how much money do you believe the Federal Government should be spending on commodity programs? What is the administration's position?

Mr. **Weber**. Mr. Chairman, I do not know the administration's position on that. Certainly, in the context of the new farm bill, it will have to be looked at in the constraints of the budget, and that is certainly something the administration will be working with the Congress, to work out what is the most appropriate level and approach to the farm programs.

Senator **Conrad**. Well, it is going to be very difficult for us to proceed here, without any indication from the administration on what the answers to these questions are. This is a hearing on the 1990 farm bill, you are the administration witness, and we do not have answers to the key questions: How much money are we going to spend? In the administration's view, do we have to keep making steep reductions? What are the set-asides? What are the target prices? What are the loan rates? What are the price assumptions that are being made on the USDA side of the house?

Hopefully, USDA is an advocate for agriculture. We know what the administration is saying on the budget side, and yet we do not get any response from USDA. That leaves us in a rather awkward position here, not knowing the administration's position.

Mr. **Weber**. I think those areas of concern will be addressed. The administration just is not in a position at this point to address them.

Senator **Conrad**. Well, let me, just for the record, point out that the commodity programs have suffered steep cuts. We have gone from $26 billion in 1986, about $12.5 billion in 1988, this year the projection is about $13 billion, and one question we need to know is how many more cuts is agriculture going to be asked to make, and what is the administration's position.

With that, I would ask my colleague Senator Daschle if he has questions or a statement.

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator **Daschle**. Mr. Chairman, thank you. I have to commend you for your leadership in this whole area. I am sorry that I am late, because this is an area that I think is probably, as we prepare ourselves for the next farm bill, the whole foundation of that piece of legislation and some fundamental policy questions have to be analyzed and I think it is imperative that we start now, as this subcommittee is doing.

I have one major concern this morning that I would like to address, and that deals with quality. I am becoming increasingly concerned about our inability to meet market demand, because of the increasing reputation we have as a poor quality supplier, that, in essence, we are not meeting the needs of the market today, in part because our whole emphasis in past farm programs has been one of quantity, rather than quality.

You take No. 3 corn, for example, we have a pricing system that starts with No. 3 corn and discounts from there. There is no incentive for being No. 1 or No. 2, and that is reflected in the product that we are bringing to market today.

So, I guess I would ask Mr. Weber whether he and his colleagues in the Department have reflected on that, whether or not he believes, as I believe, that we ought to begin focusing more on quality, providing incentives to our producers to emphasize quality as well as quantity, or perhaps even above quantity, as we look to the new farm bill.

Mr. WEBER. Certainly, we have to begin to focus on that. As a matter of fact, we recently submitted a report to the Congress on basically a first effort of taking a look at what might be able to be done with the loan program that would encourage higher quality grain. I fully agree with you, that that is certainly going to be a major issue and we will be working on that and are working on that very issue, to try to see what can be done that would encourage the production of higher-quality grain and the maintenance of higher-quality grain.

Senator DASCHLE. Among your options—and I am only going to ask you in a general sense at this point, because I know you are—it would be too early to expect you to have a position on it, but among your options, would you be considering the advocacy of premiums and discounts based upon quality?

Mr. WEBER. Yes.

Senator DASCHLE. Would you also be considering among your options setting minimum delivery standards for certain grains?

Mr. WEBER. That certainly would be within the realm, yes.

Senator DASCHLE. Well, I will tell you, Mr. Weber, I am pleased to hear that and I certainly hope that, as you go through these discussions, that perhaps informally you can include some of us who have some strong feelings about that, because I think that, as we look to the new farm bill, this is one area that we would certainly like to put more emphasis on.

Let me just ask, on an unrelated issue, one that has come to light in the last couple of weeks, with regard to stock policy. The administration announcement recently that it was concerned about increasing stocks for wheat has certainly caused a good deal of discussion and controversy with regard to the policy.

Let me see if I can elicit a more specific response with regard to that policy. I have some grave concerns and expressed them personally, as did Senator Conrad, to the Secretary in this regard about the viability of doing something like that.

Frankly, I think it was exactly the wrong thing to do at the wrong time, but setting that aside at this point, what do you think is the administration's position with regard to stock goals, for both domestic needs and food aid needs, what are your goals?

Mr. WEBER. That is certainly something that we are grappling with right now and trying to decide what is felt to be a comfortable goal. Certainly, I think it is felt that the levels of wheat at below 500 million certainly put us in an uneasy position, and that was—basically because of that and the continual decline in the world supplies of wheat—was the principal reason for making this change in the 1990 wheat program.

We certainly looked at it in the context of hopefully not creating a situation where we would get substantially more wheat acreage. It was more of a concern of being able to get some additional wheat out there to build a little better cushion and put us in a little safer position as far as trying to meet potential export demand into another year.

Senator DASCHLE. Certainly, you are not implying that you have not set a goal?

Mr. WEBER. No, we have not set a specific goal, no. We think the program as announced will likely bring on about another 2 to 2.5 million acres of wheat and increase carryover stocks by only 20–25 million bushels, up to a level less than 700, in the mid-600's.

Senator DASCHLE. Well, those are fairly marginal gains for what was a virtually catastrophic effect on the market itself, with that announcement. In retrospect, would you not agree that this may have been a mistake?

Mr. WEBER. At this point, I do not think we are willing to say that. Unfortunately, I think there were other things that were in the market that, all of them combined, has certainly created a downtrend in the market that we hope will recover.

Senator DASCHLE. For the life of me, as I said, my first issue this morning is quality, and we have addressed that, but you cannot help but shake your head at this whole process of decisionmaking. You have no goal, so you really did not know what you were trying to accomplish. If you cannot set goals, you really do not know how you are going to achieve them.

Secondly, you have already indicated that you have had very—even in the best of circumstances, you are going to get a marginal effect, in terms of additional production, with obviously catastrophic effect on the market, right at harvest time, right when these guys are bringing their crops into the marketplace, they are suffering a loss the likes of which they will not recover in this crop-year.

So, I do not mean to sound indignant, but I have to tell you, it sure has me scratching my head, and I am not here to debate the issue, but I have to say, I think I can speak for 100 percent of the farmers in South Dakota in saying that was the dumbest thing we could have done this year on wheat.

Thank you, Mr. Chairman.

Mr. WEBER. We certainly offered it as an option, and we want farmers to take a look at it, and if they choose not to do it, that is why it is an option, not a unilateral part of the program.

Senator CONRAD. Mr. Weber, if I might just follow up, because the Senator from South Dakota is exactly right. We had a conversation coming back from Vermont with the Secretary, he told us what he was thinking about doing and asked us our reaction, and our immediate reaction was, "Mr. Secretary, this is a mistake, and we urge you to go back and look at this thing very carefully."

As it has turned out, in fact, the reason that I gave was this is going to have a price depressing effect on the market and, in terms of timing, it would have been hard put to be more ill-timed. In one day wheat prices dropped 13 cents a bushel. I must say to you that, when we have the Soviets not having made any announcements to buy, for you to come out and say we are going to expand wheat acreage, what signal does that send?

The Soviets are not stupid. They see the United States is expanding the base, and then they look for price weakness in order to make a purchase, and now they have said, or at least one of their spokesmen has said on several occasions, we are not going to buy any more, because we think prices are going to go down some more.

We would like to have an analysis of your calculation of extra production on the 2 million acres. We have now seen calculations that, instead of 2 million acres producing another 60 to 80 million bushels of wheat, that we may have 4 million acres come in on this program and push us up over 100 million bushels from where we were.

Now I hear you saying that was not the goal. Is that correct?

Mr. Weber. I do not want to imply there was not a goal in mind. There was a goal in mind, and that was build a bit more of a supply cushion to a level close to our estimate when the initial wheat decision was made. The overall issue of a stocks target is something that is being looked at and we are trying to decide what is an appropriate level of stocks to keep us in a position of being a reliable supplier and competitive in world markets.

Senator Conrad. Was there any thought that we would see a sharp drop in the market as a result of this announcement?

Mr. Weber. There was not.

Senator Conrad. Then let me ask this: Would it not be reasonable for the Secretary to announce that the additional stocks that would come into the market would go into a reserve, isolated from the market, in order to prevent the kind of price erosion that we have seen as a result of that announcement?

Mr. Weber. That is certainly a possibility.

Senator Conrad. Just speaking for one member of the committee, I would urge the Secretary to announce quickly that these additional stocks, which I hear you saying was desired to have a buffer, a safety factor, would go into a reserve isolated from the market, so we would not have this price-depressing effect.

I can say to you that in my State we suffered the largest drop in personal income of any State in this Nation, and we cannot afford a policy that goes out and drops prices like this, we just cannot afford it, and I would urge the Secretary to announce quickly that this is going into reserve.

Mr. Weber. I will take your thoughts back to the Secretary.

Senator Conrad. I call on my colleague, Senator Kerrey from Nebraska.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator Kerrey. First of all, Mr. Weber, I think the Senator from North Dakota has made a very good suggestion, and I am pleased to hear that you will take it back to Secretary Yeutter. I think it is a suggestion that has considerable merit.

As you know, I have been somewhat critical of the announced decision on wheat, but also I want to point out that I find your testimony to be a pretty good review of the conditions under which we put together the 1977 bill, the 1981 bill and the 1985 bill, and I think it is a useful starting point for those of us who are trying to figure out exactly what our policy ought to be in 1990.

So, I do want to commend you and I also specifically want to applaud what appears to be some interest in going back to the normal crop acreage method, or at least some form of the NCA, as opposed to the present crop-specific base system, because I believe, both from the standpoint of economic flexibility and environmental soundness, that the normal crop acreage system is preferable.

I would like to make a constructive criticism. As you know, there has been some seeming frustration on the part of USDA as to why people are saying USDA is not as strong an advocate for agriculture as it ought to be. In your analysis of the economic and political environment of 1981 that you described on page 4 of your prepared testimony, I think you described the situation fairly accurately, albeit in a very condensed way.

However, I think the description of 1985 is not as accurate, and I would suggest looking at some of the analysis that has been done by a good solid Republican economist, Neal Harl, who does work for the Food and Agriculture Policy Research Institute, the joint University of Missouri-Iowa State effort. I think this is important because if we do not know what caused the mistakes of the past, we are apt to repeat them. What is implied is that the economic and political context was that we simply had a significant loss of export markets, accompanied by growing surplus stocks. That simply does not describe all the conditions that caused the economic problems of agriculture in 1985, many of which were a result of other things the Government was doing that you reference in earlier testimony.

It is very important to put that in there, Mr. Weber, so that we can avoid doing the same sorts of things again, because it seems to me that much of what we did that caused the problems of the 1980's were really nonfarm bill related. They were related to fiscal imbalances, to decisions made by the Federal Reserve, to other decisions made in areas away from the farm bill itself. I personally think that is very important, particularly given what we are currently doing with our Federal budget.

Having said that, I would like to ask two questions: First, again referencing your own prepared testimony, you say on page 3 that, "The current tighter situation, brought on by weather, masks the underlying supply realities." I really find this to be an excellent point, but it seems to me that that is exactly why you should not have been so quick to lift the acreage controls on wheat. This seems to argue for some caution, particularly with the volatility in the Soviet Union right now. It seems to me that your observation would have argued against making that decision.

Mr. **Weber**. This statement is in the context of feed grains, not necessarily wheat. We think the productive capacity and the stock situation on feed grains is not nearly as tight as it is for wheat, and in the case of wheat it was felt that, in the analysis that we have made, we really do not see in the near-term wheat stocks climbing to very high levels, simply because we expect demand to stay up and that we find that it is going to be probably more difficult to rebound to high levels of carryover stocks on wheat, as compared to feed grains. It just seems that feed grains probably can build quicker under current circumstances than we see probably wheat building. Your comments are well taken.

Senator **Kerrey**. I think what we are experiencing is a rather unique situation. We have great uncertainty right now in the Soviet Union and among other buyers. We have, as the Secretary knows, significant uncertainty created by a variety of international trade developments, not the least of which is the collapse of the International Coffee Agreement, that causes, as I am sure the Secretary knows, all sorts of chain reaction events that affect agriculture and other areas.

Again, on the question of why people do not think USDA is an advocate for farmers, I think you have to consider what we have heard USDA state over and over and over again, which is a desire to have the farmer get more of his income from the marketplace. The objective seems to be contradicted by a decision, the effect of which will be to have the farmer getting more of his income from the Government, which I thought was what Secretary Yeutter was trying to move away from.

I know we have gone over this repeatedly now with several Senators, but I just wanted to make the point. I also wanted to comment on your statement about the farmer-owned reserve. You say on page 6 that, "In contrast to its avowed purpose, the farmer-owned reserve (FOR) has been used as a price support mechanism." You cite as examples, "the changes in FOR rules following the grain embargo in January 1980 and increasing FOR loan rates for reserve grain and allowing early entry in 1982."

Would you describe for me the purpose of the farmer-owned reserve, as you understand it, since you believe it is not to be used as a price support mechanism?

Mr. **Weber**. My understanding of the farmer-owned reserve would be to provide a level of buffer stock, not simply a program which would continue to isolate grain from the market, similar to what was done in the early eighties. We simply permitted all excess to come into the reserve program and build the reserve program to very high and intolerable levels.

Senator **Conrad**. I just at this point intercede with my colleague. We are now 40 minutes behind schedule.

Senator **Kerrey**. Well, let me just close by saying I disagree with you. [Laughter.]

We will take it up later.

Mr. **Weber**. Thank you.

Senator **Kerrey**. Thank you.

Senator **Conrad**. Senator Cochran.

Senator **Cochran**. Mr. Chairman, thank you very much.

I just want to inquire of the witness whether there would be any feasible way to have more flexibility in our commodity programs, without jeopardizing the income of nonprogram crop producers. Is there any idea that you have about that that you could share with the subcommittee this morning?

Mr. **Weber**. No specific idea, but certainly we are looking at that through our deliberations and trying to figure out through this whole flexibility concept in ways that we can permit the production of some of these nonprogram crops and still maybe afford producers the opportunity to protect their regular crop bases, and so that is certainly a part of our deliberations and we think it is very key to have the flexibility to permit these kinds of judgments out there on the part of the farmer.

Senator **Cochran**. Thank you very much.

Thanks, Mr. Chairman.

Senator **Conrad**. Thank you, Senator Cochran.

Let me just conclude, Mr. Weber, by ending where I started. I frankly am disappointed with what we received this morning, because, while we received a good review of the history, we received virtually nothing in terms of what the administration is proposing on feed grains, nothing on target prices, nothing on loan rates, nothing on set-asides, nothing on what the analysis might show about the effects on producer income of the administration's sharply reduced target prices.

It is going to be awfully hard for us to move toward writing a 1990 farm bill, if we do not have timely positions by the administration and an outline of what the administration thinks we ought to do in these areas. I hope when you go back, in addition to getting answers to these questions that we asked, that we also get a commitment from the Department that they are going to get on a fast track here in terms of what their position is, because we need to know what the administration is recommending. And I say to you, if what they are going to recommend is what they have told the budget folks—that target prices will be $2.39 corn in 1994 and $3.30 wheat—then somebody needs to go back to the drawing boards, because that is devastation. So, I hope that the message gets transmitted.

Mr. **Weber**. It will, and I thank you.

Senator **Conrad**. Thank you very much.

Next, we will call Dr. William Meyers, professor of agricultural economics, from Iowa State University.

Welcome, Dr. Meyers. In the interest of time, if you can summarize your prepared testimony, we will include your full remarks in the record.

STATEMENT OF WILLIAM H. MEYERS, PROFESSOR OF ECONOMICS, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT, IOWA STATE UNIVERSITY, AMES, IA

Dr. **Meyers**. Thank you, Mr. Chairman. I will try to be very brief.

INTRODUCTION

Mr. Chairman and members of the committee, I apologize that I could not provide a prepared statement today. Although this is a personal statement, I wish to incorporate the FAPRI baseline,[5] which is just now being updated, and so I would be able to submit that next week, if the Chair please.

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[5] See p. 177 for the FAPRI Projections Assuming Continuation of Current Policies.

After a brief introduction, my statement has two parts: One, the near-term outlook for feed grains; and, second, problems in current feed grain programs that need attention.

As background, I wish to comment on the problems that influenced the Food Security Act of 1985 and their disposition today. We entered the policy debate in 1984-85 with several problems: Exports were falling, grain prices were declining, stocks were high and rising, commodity program costs were rising rapidly, land values were declining, and many farmers were in deep financial stress.

All of these problems have been reduced during the past 3 years, but the 1985 act was not the only reason. Key factors contributing to the reduction or resolution of these problems were improved economic growth in the United States and many other countries; second, depreciation of the U.S. dollar relative to many foreign countries; third, the droughts of 1988 and 1989; and, fourth, the implementation of the Food Security Act of 1985.

Especially important provisions of the 1985 act in dealing with these problems were:

First, the supply management provisions, including the ARP and the paid diversion and the Conservation Reserve Program.

Second, the income maintenance through higher deficiency payments.

Third, reduced loan rates, lower loan rates to improve competitive pricing.

Fourth, massive use of PIK certificates to dispose of reserve stocks.

In many ways, the policy response in the Food Security Act of 1985 to reduce stocks and surplus production, while maintaining farm income—and the results of the policy—are reminiscent of what occurred in the early 1960's, in response to similar conditions. The fact that we have been through this sequence twice in the last 25 years should remind us to be careful that it does not happen again.

FEED GRAIN OUTLOOK

Now, the feed grain outlook of 1989 to 1992—this is a 4-year outlook—I would like to discuss.

The FAPRI baseline is conducted using the continuation of current programs, including target prices frozen at the 1990-91 levels, and increasing the CRP to 40 million acres. The baseline uses current assessments of future economic growth and exchange rate prospects and normal yields in the United States and abroad. The net outlays under the CCC programs in total range from $8 to $11 billion in this baseline.

I will focus on summarizing corn projections. I would be happy to provide more complete figures when the current FAPRI update is completed. The key elements in the corn projections are:

First, the projected corn exports remain at near 2 billion bushels through 1990-91.

Second, price projections remain in the band of between $2 and $2.20 a bushel.

Third, stocks range from 1.4 billion bushels in 1989-90 to 1.7 billion in 1991-92.

Fourth, the ARP rate in our analysis is kept at 10 percent through 1991-92 and raised to 12.5 percent in 1992-93 and 1993-94 and dropped to 10 percent thereafter.

Fifth, corn acreage in the CRP is assumed to increase by 2.2 million acres.

One pattern that emerges for sorghum and barley that I would like to mention is that, relative prices of sorghum to corn and barley to corn rye is above historic norms. This suggests consideration of delinking sorghum and barley ARP rates from corn, as has been done with oats.

PROBLEMS IN THE CURRENT PROGRAMS

Some comments on problems in the current programs: I will mention three areas, flexibility, budget exposure, and stocks policy.

FLEXIBILITY

The fact that acreage reduction programs are crop specific reduces the ability of program participants to respond to relative price changes in alternative crops. The most recent effect was to limit producers' opportunity to plant oats and soybeans last year in response to relatively high price expectations. More generally, it has probably led to greater contraction of soybean production in the United States than would have occurred under a more flexible program.

Various options are available to achieve more flexibility, including the provisions for oats, sorghum, soybeans and sunflower in the 1989 program, a return to normal crop acreage concept used in the 1970's, this has been mentioned, and the so-called "flexible base," where payments are made only on a portion of permitted planting acres, and the rest can be planted to other crops. These options, to differing degrees, would lead to more uncertainty in estimating plantings by crops and possibly the more price variability, but they certainly would increase the flexibility as well.

BUDGET EXPOSURE

On budget exposure, as I indicated, FAPRI projections were conducted with target prices constant at 1990-91 levels, and given these assumptions, costs ranged in the $8 to $11 billion level over this 4-year period. If budget decisions require a reduction in these costs below those levels, past practice has been to reduce target prices. This, as we know, inevitably leads to a reduction in farm income approximately equal to the cost reduction. The concept of cutting the payment base and allowing any crop to be planted on the remaining permitted planting acreage should be preferable to many producers, in that the reduction in payment base would still reduce payments, but this would be partially compensated by increased planting flexibility on remaining acres.

STOCKS POLICY

The farm-owned reserve (FOR) program established in the 1977 act was designed to stabilize prices within a fairly wide range and improve the reliability of the United States as an export supplier. For a few years, the corn FOR operated as a fairly balanced stock program, but beginning in 1982–83, it began to contribute to an excessive accumulation of stocks. In recent years, extraordinary measures, such as PIK certificates, have been necessary to draw down these excessive stocks. The Midwest drought of 1988, however, has reminded us that a reserve stocks program of some kind is desirable, but it is clear that the existing program needs to be overhauled or replaced.

I do not have any magic formula, but given our experience with the FOR, a more simple formulation is called for. The most simple approach would be an extended loan program, with a storage subsidy. This would keep the level of CCC-owned grain low, while increasing the level of private stocks at any given price. It may not be necessary to have any constraints on the release of the stocks, since farmers would be induced by higher market prices to sell the stocks in periods of shortage and, conversely, to hold more in storage when supplies are plentiful and prices are low. Emergency or food security reserve stocks, if needed, would be held by the CCC.

Thank you, Mr. Chairman.

[The prepared statement and attached FAPRI Projections Assuming Continuation of Current Policies of Dr. Meyers follow:]

STATEMENT OF
WILLIAM H. MEYERS
PROFESSOR OF ECONOMICS AND CARD ASSOCIATE DIRECTOR
IOWA STATE UNIVERSITY
BEFORE THE
SENATE COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
SEPTEMBER 22, 1989

Mr. Chairman and Members of the Committee, I welcome the opportunity to appear before you this morning to make a personal statement on Feed Grain Programs and the 1990 Farm Bill.

As background, I wish to comment on problems influencing the Food Security Act of 1985 (FSA85) and their disposition today. We entered the policy debate in 1984 and 1985 with several problems: Exports were falling, grain prices were declining, stocks were high and rising, commodity program costs were rising rapidly, land values were declining, and many farmers were in deep financial stress.

All of these problems have been reduced during the past three years, but the 1985 Act was not the only reason. Key factors contributing to the reduction or resolution of these problems were improved economic growth in the U.S. and many other countries, depreciation of the U.S. dollar relative to many foreign currencies, the droughts of 1988 and 1989, and the implementation of the FSA85.

Especially important provisions of the 1985 Act in dealing with the problems were:

1. Supply management through the acreage reduction, paid diversion and conservation reserve programs,
2. Income maintenance through higher deficiency payments,
3. Lower loan rates to improve competitive pricing, and
4. Massive use of PIK certificates to dispose of reserve stocks.

In many ways the policy response in the FSA85 to reduce stocks and surplus production while maintaining farm income (and the results of the policy) are reminiscent of what occurred in the early 1960s in response to similar conditions. The fact that we have been through this sequence twice in the last 25 years should remind us to be careful that it doesn't happen again.

Feed Grain Outlook

The FAPRI baseline is conducted using the continuation of current programs, including target prices frozen at 1990/91 levels and increasing the CRP to 40 mil. acres. The baseline uses current assessments of future economic growth and exchange rate prospects and normal yields in the United States and abroad.

I will focus on summarizing the corn projections. More complete figures are in the attached table. The key elements in the corn projections are:

1. Projected corn exports remain near 2 bil bu through 1990/91 and average above 2.2 bil. bu. during the next five years.
2. Price projections remain in the band between $2.00 and $2.20/bu. throughout the period.
3. Stocks range from 1.4 bil bu. to 1.7 bil bu. during the next seven years.

4. The ARP rate is kept at 10 percent through 91/92 and raised to 12.5 percent in 92/93 and 93/94 and dropped to 10 percent thereafter.
5. Corn area in the CRP is assumed to increase by 2.2 mil acres.
6. Total net returns over variable costs for the corn sector range from $8.2 to $10 billion.
7. Feed grains program costs range from $2.3 billion to $5.3 billion annually.

One pattern that emerges for sorghum and barley is that relative prices of sorghum to corn and barley to corn rise above historical norms. This suggests consideration of delinking sorghum and barley ARP rates from corn as has already been done with oats.

Problems in Current Programs

Many aspects of the programs appear to have worked well. Some areas that may need attention are acreage planting flexibility, budget exposure and stocks policy.

Flexibility:

The fact that acreage reduction programs are crop specific reduces the ability of program participants to respond to relative price changes of alterative crops. The most recent effect was to limit producers' opportunity to plant oats and soybeans last year in response to relatively high price expectations. More generally, it probably has led to a greater contraction of soybean products in the United States than would have occurred under a more flexible program.

Various options are available to achieve more flexibility, including the provisions for oats, soybeans and sunflower in the 1989 program, a return to the Normal Crop Acreage concept used in the 1970s and the so called "flexible base" where payments are made only on a portion of permitted planting acres and the rest can be planted to any crop. These options to differing degrees would lead to more uncertainty in estimating plantings by crop and possibly to more price variability.

Budget Exposure:

FAPRI projections hold target prices constant after 90/91. Projected net CCC outlays for FY92 to FY94 start at $11 billion and decline to $7 billion. This would not appear to call for budget cutting measures. If budget decisions require reduction in projected program costs, some would propose target price reductions. This inevitably leads to a reduction in farm income approximately equal to the cost reduction. The option of cutting the payment base and allowing any crop to be planted on the remaining permitted planting acres has also been suggested. The reduction in payment base would still reduce farm income, but this would be partially compensated by increased planting flexibility on the remaining acres. A cost cutting measure that would have even less impact on farm income would be to cut EEP expenditures, which are of little direct benefit to producers.

Stocks Policy:

The Farm-Owned Reserve (FOR) Program established in the 1977 Act was designed to stabilize prices within a fairly wide range and improve the reliability of the U.S. as an export supplier. For a few years the corn FOR operated as a fairly balanced stock program, but beginning in 1982/83 it began to contribute to an excessive accumulation of stocks. In recent years extraordinary measures, such as PIK certificates, have been necessary to draw down these excessive stocks. The midwest drought of 1988 coincident with a poor crop in the USSR is a reminder that a reserve stocks program of some kind is desirable, but it is clear that the existing program is not working well.

Our experience with the FOR and knowledge gained from research on grain reserves should persuade us to design a grain reserves policy that has modest ambitions and programs that are flexible in the face of changing market conditions. Some options and guidelines in designing such a policy are:

1. When there is a substantial acreage reserve, the size of the grain reserve need not be as large. If stocks are drawn down due to low yields one year, acreage can be returned to production to increase supplies and stocks the next year. This was, in fact, the case in 1988/89 and 1989/90 for wheat and corn. If acreage reserves are low or nonexistent the grain reserve would need to be larger, since it could not be replenished as quickly.

FAPRI projections are for the corn annual acreage reserve to be slightly over ten percent of planted acres, given normal weather conditions over the next six years. These estimates exclude the conservation reserve program acres, which currently cannot come back into production following a short crop. These figures suggest that a moderate reserve of idled acres will be available, but it is also true that feed grains are expected to have far fewer acres in annual programs than has been the case during the last few years.

2. The Farmer-Owned Reserve Program needs to be overhauled or replaced. This program or its successor should be focused on the objective of maintaining the reliability of the United States as an export

supplier. Its size should be related to potential weather shocks in the United States and probably also to potential weather induced shocks in export demand.

3. The FOR or its successor should have provisions that are as simple as possible, flexible in the face of changing market conditions, and inflexible in response to political pressures. The most simple scheme would be an extended loan program with a storage subsidy. This would keep the level of CCC owned grain low by reducing forfeitures, while increasing the level of private stocks at any given price.

It may be necessary to have a trigger price equal to some percentage above average market prices at which the storage subsidy is reduced or discontinued, but this need not limit farmers from selling the grain at any price or anytime that they wish. In any case, farmers holding reserve grain would be induced by higher market prices to sell the stocks in periods of shortage and conversely to hold more in storage when supplies are plentiful and prices are low. This type of program would also have the effect of providing some degree of increased market price stability, but a specific price range need not be prescribed.

These are somewhat general principles and suggestions. The main thrust of these suggestions is to avoid the two extremes of no reserves and excessive reserves by following cautious and simple rules in the design end implementation of these programs.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions that you may have.

FAPRI Projections Assuming Continuation of Current Policies
(Based on information available September 21, 1989)

Crop Supply and Use	1987/88	1988/89	1989/90	1990/91	5-Year Ave. 91/92-95/96
Corn					
Area Planted (mil ac)	65.7	67.6	72.3	74.5	73.0
Production (mil bu)	7072	4921	7321	7973	8170
Domestic Use (mil bu)	5964	5255	5754	5848	5933
Exports (mil bu)	1735	2075	1980	1972	2258
Ending Stocks (mil bu)	4259	1855	1445	1601	1544
Farm Price ($/bu)	1.94	2.55	2.18	2.17	2.14
Sorbhum					
Area Planted (mil ac)	11.8	10.4	11.9	11.0	12.1
Production (mil bu)	739	578	659	653	740
Domestic Use (mil bu)	589	500	525	443	473
Exports (mil bu)	231	315	245	234	270
Ending Stocks (mil bu)	663	425	314	290	287
Farm Price ($/bu)	1.70	2.30	1.96	2.09	2.07
Barley					
Area planted (mil ac)	11.0	9.7	9.3	10.1	10.4
Production (mil bu)	530	291	401	505	543
Domestic Use (mil bu)	431	342	366	393	442
Exports (mil bu)	126	85	64	80	112
Ending Stocks (mil bu)	321	197	182	229	254
Farm Price ($/bu)	1.81	2.79	2.30	2.10	1.99
Oats					
Area Planted (mil ac)	18.0	13.9	12.1	10.9	11.0
Production (mil bu)	374	219	381	324	357
Imports (mil bu)	46	68	47	49	50
Domestic Use (mil bu)	440	300	414	395	401
Ending Stocks (mil bu)	112	98	110	86	99
Farm Price ($/bu)	1.56	2.61	1.53	1.68	1.74
Total Net Returns (bil $)					
Corn	12.44	6.69	9.52	9.99	8.96
Sorbhum	1.14	0.89	0.82	0.82	0.72
Barley	0.68	0.36	0.44	0.52	0.48
Oats	0.22	0.27	0.14	0.21	0.21

	FY 88	Fy 89	Fy 90	Fy 91	92-96 Ave.
Net CCC Outlays (bil $)					
Feed Grains	9.1	3.3	2.3	5.1	3.9
Total	12.5	12.3	6.3	11.4	7.7

Senator CONRAD. Thank you. We appreciate very much your testimony.

If I might ask, in your analysis, do your figures show production costs and income levels approaching one another during the first half of the 1990's at anytime?

Dr. MEYERS. Production costs——

Senator CONRAD. Right.

Dr. MEYERS [continuing]. And income levels. I am not sure.

Senator CONRAD. Have you done an analysis of what happens to the costs of production and the income for farmers, and whether or not those two in aggregate start approaching each other in the early 1990's, under your assumptions?

Dr. MEYERS. Well, aggregate production costs are quite a bit higher than farm income levels—or are you talking about farm receipts, total farm receipts?

Senator CONRAD. Yes.

Dr. MEYERS. Yes, in our baseline, there is a gradual decline in the net farm income levels over the projection period, and that reflects the fact that production costs are rising faster than farm receipts.

Senator CONRAD. And what are your projections on net farm income?

Dr. MEYERS. Well, as I said, Mr. Chairman, the outlook is being updated this week, and I will not have those new numbers until probably next week sometime.

Senator CONRAD. Do you have any preliminary judgment on what those will show?

Dr. MEYERS. As I recall, the previous baseline that was conducted in January of last year, which is now fairly stale, they declined to below $35 billion by 1995.

Senator CONRAD. All right. What target price projections were included in that analysis?

Dr. MEYERS. Those were frozen at 1990–91 levels.

Senator CONRAD. What would happen if you, instead, adopted the administration's projection of $2.39 corn, for example, and $.30 wheat?

Dr. MEYERS. Well, it would reduce farm income dollar-for-dollar, based on the——

Senator CONRAD. There would be a dramatic reduction?

Dr. MEYERS. It would take me a little while, but I am sure it would be significant, yes.

Senator CONRAD. All right. Senator Daschle.

Senator DASCHLE. I have no questions, Mr. Chairman.

Senator CONRAD. Senator Kerrey.

Senator KERREY. First of all, Mr. Chairman, I would like to insert in the record a statement from the Nebraska affiliate of the National Association of Farmer-Elected Committeemen, who asked that it be inserted in the record.

Senator CONRAD. Without objection, it is so ordered.

Senator KERREY. Thank you, Mr. Chairman.

[The prepared statement of the Nebraska affiliate of the National Association of Farmers-Elected Committeemen (NAOFEC) follows:]

NAOFEC

Executive Committee

Dist 1 — John Loch
Burchard 68323
Warren Kolder
Rock 68436
Joy W. Schroder
Palmyra 68418

Dist 2 — Blake Mankin
Hastings 68901
Lloyd Scheibitzki
Geneva 68361
Ivan Schoone
Upland 68981

Dist 3 — Jean C. Kuhl
Rising City 68658
Donald P. Tank
Fremont 68025
Ted Regier
Aurora 68818

Dist 4 — Emmet Connealy
Decatur 68020
Merle Farrens
Decatur 68020
Marvin Sorensen
Osmond 68765

Dist 5 — Leo Dalton
Bloomfield 68718
Louis Klesna
Spencer 68777
Kenneth Stevens
St. Edward 68660

Dist 6 — Dale Clark
Brady 69123
David Jones
Ainsworth 69210
Wilber Kloepping
Cozad 69130

Dist 7 — Leland Dodson
Maywood 69038
Stanley Dodson
Curtis 69025
Dean E. Haarberg
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NEBRASKA NAOFEC FARM POLICY OUTLINE

From the beginning, the Founding Fathers intended that the newly established government of the United States represent all citizens fairly and equally. In the 1930's, this same government moved to "promote the general welfare" by instituting a farm policy or, as it was soon to be called, a farm program. The primary goal of this program was to remove the wild fluctuations in markets, which caused a boom and bust situation for producing farmers, and replace them with a system which created market stability in farm prices, both within a single twelve month production cycle, and an ongoing year to year marketing system. It can be fairly said that during the years since their inception, farm programs have worked very well to benefit the particular segment of the food production system that each succeeding administration has intended to favor. That is to say, that in many administrations, the processors, shippers, and suppliers have benefited from farm program policy at the expense of the producing American farmer and the ever dependent American consumer. We feel that agricultural policy must be redirected to serve all segments of the food chain equally. Neither the producer, the processor, nor the consumer should benefit at the expense of another. Finally, we believe the 1990

Farm Bill should take a long term, comprehensive approach to agricultural policy that will assure a reliable source of high quality food for the American consumer at a fair price to both producer and consumer. In addition, this policy must maintain the best balance between the environment and the people. To achieve these objectives, we believe the 1990 Farm Bill should contain these specific points.

1. When specific points are being considered for a comprehensive and fair farm policy direction, the number one point, the foundation upon which to build, MUST be loan rate or directly stated: PRICE. This point is so important it deserves much more than mere statement. The numbers are in and the facts are clear. The mass exodus of farmers from their land and the near melt down of many communities in Rural America can be directly traced to low commodity prices. If we are to redevelop this unhealthy rural American economy, if we as a Nation want to save a food production system that has never failed, we must make sure that the beginning step in the system, the producer, the farmer, the most vulnerable to economic and political pressure from overwhelming and greedy outside special interests is sustained. If we really want to redevelop rural America, a fair price and an opportunity for profit must be provided by Congress in law, because for 8 long painful years we have seen what market oriented -price discovery- low loan and target price agricultural policy has done in America. Stated simply, if farmers were to receive a fair price for their production, that is to say 100% of parity, that could and would stand alone and be all that is needed in a Farm Bill.

2. The 1990 Farm Bill must be the result of the legislative process of government. That is to say agricultural policy must be determined by elected Senators and Congressmen. Conversely, policy which affects agricultural production and trade MUST NOT be determined by any appointed official striving to "end run" the will and intent of Congress by treaty negotiations. Stated plainly - Clayton Yeutter must not write public policy.
3. The loan rates must be set in proper relationship to keep planted acres of corn - wheat - soybeans - alfalfa etc. in balance.
4. The loan rate must be equal to at least the cost of production.
5. PIC's must be eliminated.
6. Soybeans must be a program crop.
7. Return to NCA (Normal Crop Acres).
   There would be no bases.
8. Maintain a farmer owned reserve.
9. Extend and expand CRP.
   More acres - longer signup time - longer land retirement.
10. Reverse cross compliance. Presently land owners need not meet conservation requirements to stay in program but tenant farmers do. This should be reversed.
11. Continue Non Recourse Loans.
12. No payment limitation.
13. Crop Insurance- 50% automatic at signup and can go 100%.
14. Keep County Committee System and strengthen and increase
15. Enhance ACP.
16. Return to direct loans at FmHA.

Senator Kerrey. Dr. Meyers, just one question. It seems to me that there was an intersection of interests in 1985 that produced the 1985 farm bill. Farmers were desperate, as a consequence of the conditions in 1985. There was a significant interest on the part of environmentalists to include in the farm program some efforts to control practices that had been damaging to the environment, and the swampbuster, sodbuster, and cross compliance requirements were enacted.

I see in 1990 farmers saying they want to get more of their income from the marketplace, taxpayers saying they want to reduce the costs of the program, and, again, environmental interests wanting to make some changes.

It seems to me that one of the operative questions is going to be whether or not we should either freeze the loan rate or raise it somewhat after 1990. I happen to be in the camp that is going to be arguing—just so you know—to increase that loan rate, because I think it may satisfy the desires that farmers earn more income from the marketplace and taxpayers have less taken from their pockets.

Does FAPRI have an opinion as to what the so-called world clearing price is for corn, for example, and is it higher than where we currently are and where we are heading?

Dr. Meyers. Well, the kinds of projections that we have made, of course, already incorporate a fairly substantial reduction in acreage planted in the United States, so, given that kind of reduction in acreage, the prices that we are projecting of $2 to $2.20 a bushel are equilibrium levels. Now, one could push that up a notch by having the heavier acreage reduction programs, but then that would cost more money as well.

It has often been the case that when we let prices go without, let us say, being supported by the loan rate itself, and manage the budget in the range that we are talking about, that is about where we end up, in the $2 to $2.20 range for market prices.

Senator Kerrey. Of course, the corn loan rate for 1990 is going to be $1.57.

Dr. Meyers. Yes, and raising that some amount would not interfere significantly with the operation of the market. I think it also probably would not add anything specifically to the income, because the deficiency payment would be the same, regardless of whether it was $1.50 or $1.75.

Senator Kerrey. Again, one of the things that I am trying to focus on is a program that enables the farmer to get more income from the marketplace, enables the taxpayer to pay less, enables us to still compete in the world marketplace, and enables us to prevent the degradation of soil and water. Those seem to me to be reasonable objectives. I hope that your computer models can help guide us as to what our specific policy ought to be in this area.

Dr. Meyers. Well, I think, just to respond to that comment, even though the CRP was designed in part as a conservation program, it certainly has had supply management kinds of effects, and if that were increased or extended to environmentally sensitive areas, in addition to highly erodible areas, it certainly would help to tighten the markets and, in a sense, that would also contribute to environmental concerns.

Senator **Kerrey**. Thank you.

Senator **Conrad**. Senator Cochran.

Senator **Cochran**. I was interested in your comment about reducing costs of farm programs, the way that you assume we would go about that, would be to reduce the target prices, that there would be pretty much a dollar-for-dollar reduction, though, in farm income for target price reductions.

Have we not seen a good deal of reduction in the costs of farm programs over the last 2 years, without there being any substantial reduction in target prices, though?

Dr. **Meyers**. Yes, we certainly have. That is partly due to the market prices coming up toward the target price and, of course, the reduction of the reserve stocks which have cost quite a bit to maintain in terms of storage payments and so on.

I think in that case you are absolutely right, the cost reductions came because the market prices moved up toward the target price, and if there were some factors that would do more of that, that certainly would cut the costs and also give farmers more return from the marketplace. The question is where that sort of increased buoyancy comes from.

Senator **Cochran**. Looking to the future, you do not see any opportunity for that kind of influence to occur in the next 1 or 2 years, then, as I understand it?

Dr. Meyers. Yes, we are seeing fairly flat exports, I mean they are not low, they are 2 billion bushels a year, but they are not increasing, either, so that is the main impediment, and, as was mentioned in earlier testimony, the domestic feed grain demand is not going anywhere in particular, either, so we really would have to look to the export market and we are already in the projections looking at fairly good economic growth assumptions around the world and fairly favorable exchange rates, so it is hard for me to see where that would come from, unless we get a breakthrough in, say, EC policies which would reduce the pressure that they put on the market.

Senator **Cochran**. If there is that upturn in world demand, would it not be detrimental to our efforts to sell in that market, if we have the loan rate up higher than it is now, or would it not?

Dr. **Meyers**. Well, I think when the higher loan rate becomes a problem is when market prices start to come down and then our prices hit that and they cannot remain competitive. I think if we can find other means of providing income to farmers, without raising the loan rate, it is preferable in the sense that it is a more enduring program, in case there would be a drop in prices at some point. It would not cause a big buildup in stocks or problems with competitiveness.

Senator **Cochran**. There has been a concern of mine that a lot of the influence in the next few years in agriculture, in terms of costs of production—and the chairman asked you about the costs of production and income or receipts levels—is going to come from non-program provisions of the farm bill or Federal legislation affecting ground water degradation, as Senator Kerrey mentioned, environmental concerns that we all share about protecting environment. To what extent do you calculate in your projection of increased costs of production the costs of compliance with new Federal laws or regulations that seek to constrain decisions that farmers will make about how much fertilizer or pesticide or other kinds of chemical use they have on the farm? Is any of that in your mode?

Dr. **Meyers**. We have not included any of that in our baseline. Of course, because of the conservation compliance program, there would be a slight increase in costs imposed by that program, but that would not be as significant as what might occur if we went into larger programs that are being discussed now. We have not run scenarios on more drastic programs in that area.

Senator **Cochran**. Thanks, Mr. Chairman.

Senator **Conrad**. Senator Daschle had a followup?

Senator **Daschle**. Mr. Chairman, just a couple of clarifications. We were talking about the loan rate vis-a-vis the market in the international environment today, and I can recall in the earlier eighties economists saying that all we had to do is to bring down the value of the dollar and we would see a dramatic increase in volume.

We really have two prices that we have to be concerned about, the price of the product and the price of the currency, and people have argued for years that simply by dropping price in currency or in product, we are going to see a resulting increase in volume. Well, we saw a dramatic decline in the price of currency, and no resulting increase in the volume, and I think it has been said, as well, for the price of the product itself, that there appears to be very little relationship, if agricultural experts who have come before us before can be believed.

But my question relates to an earlier statement you made with regard to supply. I remember the great supply control debates, the production control or supply management debates that occurred in 1985, and there were those who argued that, simply by reducing supply, we are not going to see any increase in price. I seemed to have heard you say, and I just want to make sure that I understood what your comment was with regard to a question relating to supply. Did you not say that, as a result of a fairly significant decrease in supply, we have seen an increase in price?

Dr. **Meyers**. Yes, Senator, I did. That has been probably the most significant mechanism for reducing the overall surplus situation that we had at the beginning of this act, of the 1985 act, and as I indicated, it is quite similar, at least in my mind, to what was done in the early sixties, for exactly the same reasons. I think in both cases also it could be said that we got into that situation because we didn't have adequate supply management tools to prevent the buildup of stocks that occurred when production started to increase more rapidly than demand.

Senator **Daschle**. Dr. Meyers, I guess I share your views enthusiastically. I do not think that supply management must necessarily mean production control. But I think, as a result of what we have witnessed in the last 4 years, you really can argue fairly persuasively that supply management has had an effect, that production controls more precisely have had an effect on the increase in income at a reduced cost to the Government for farm programs.

Thank you, Mr. Chairman.

Senator **Conrad**. Senator Baucus.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.[6]

Mr. Chairman, I regret not being here earlier. I am chairing the subcommittee hearing on air toxins and it has taken all day. With your indulgence, Mr. Chairman, I have a statement and a question of Dr. Meyers.

Currently, the farm program treats Malting barley and Feed barley as though they were the same crop concerning government payments. There are several consequences of such action. First, because Malting barley is sold at a higher price than Feed barley, when advance deficiency payments were repaid, the Feed barley guys got the short end of the deal. The prices had been lumped together, which resulted in an obvious inequity to the Feed barley producers, compared with the Malting barley producers.

The shoe was on the other foot when disaster payments were made, because the price of the two were lumped together, the average price brought down the price to the Malting barley producers, therefore they were on the short end of the stick. I am wondering what you would advise the committee to do in this new farm program to address those kinds of inequities, the difference between the Feed and Malt barley?

The second applies to oats. As you know, there is a great demand for oats in this country, and it was not too many years ago, during the 1950's, that this country produced 1.4 billion bushels of oats. In 1988, that production dropped to about 210 million! In fact, last year, we imported about 60 million bushels of oats from overseas.

That will tell you the value of oats to this country, but the reason why the production has not kept up with demand, obviously, is because farmers are a little reluctant to switch, they are worried about losing their acreage base. Even though the Secretary has the authority to allow 10 percent of the base crop to be switched without losing the base, the Secretary has not exercised that discretion. That might be one way we could get at this problem.

There are other values of oats. For example, oats are an excellent rotation crop because they reduce the need for use of fertilizers and pesticides and, consequently, there is less ground water contamination.

Just what are your thoughts on barley and oats?

Dr. MEYERS. I am not as well versed in those particular commodities as you are, I am sure. I mentioned in my testimony the idea of going to a more flexible base concept, which is being discussed quite a bit these days. This would allow farmers to move toward a commodity whose kind of direction in life has changed. Oats now may be one of the growing commodities of the future, and so I think that certainly would be one among the ways to address the inflexibility under current programs.

Frankly, I am not quite sure what to say about the barley malting and feeding situation. Some might argue that you should do the same thing with different types of wheat that are grown in different parts of the country, and I think it is an interesting idea, but I really have not looked at that issue yet.

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[6] See pp. 135 to 136 for the prepared statement of Senator Baucus.

Senator BAUCUS. That is what we have to address. Thank you very much.

Thank you, Mr. Chairman.

Senator CONRAD. Thank you, and we thank the witness as well. We appreciate your appearing.

Next, we will have a panel of Jack Kintzle, government relations vice president of the National Corn Growers Association, from Coggon, Iowa; Richard Perry, vice president of the National Grain Sorghum Producers Association, from Abernathy, Texas; Louis Arnold, president of the National Barley Growers Association, from Esmond, North Dakota; and John Bollingberg, an oat producer, and a member of the board of directors of the American Oat Association, from Bremen, North Dakota.

If the four of you would come to the table and present your testimony, then we will have time for questions by the panel. Welcome to all of you.

Mr. Kintzle, do you want to proceed? Let me just say once again, we are now seriously behind schedule, and if I could ask each of you to summarize your testimony and the full prepared statements will be entered in the record as if presented and then we will have a chance for questions.

Mr. Kintzle, once again, welcome.

STATEMENT OF JACK KINTZLE, GOVERNMENT RELATIONS VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, COGGON, IA

Mr. KINTZLE. Thank you, Mr. Chairman. Good morning. I would like to thank you, first of all, for the opportunity to visit with your subcommittee today on the 1990 farm bill.

1985 FARM BILL WAS SUCCESSFUL, RESPONSIVE, AND REASONABLE

Looking back, our organization really feels the Food Security Act of 1985 was one of the most successful, responsive and reasonable pieces of farm legislation in recent history, and you and Congress deserve credit in that area.

What the 1985 law did, it let us work out from under huge price depressing grain surpluses through more competitive support levels and appropriate acreage reduction programs. It gave you and Congress the leeway needed to address the Farm Credit System crisis and severe drought, both of which impacted me in eastern Iowa, and it provided corn farmers with a safety net of income support, while still contributing a more than generous share of Federal budget savings.

FARM PROGRAM SPENDING HAS FALLEN ALMOST 60 PERCENT IN ONLY 4 YEARS

Leaders in Congress have mentioned that final point several times, but I think it bears repeating. Farm program spending has fallen almost 60 percent in only 4 years, to its current level of about $11 billion. Farm programs were costing more than anyone would have liked in the mid-1980's. But the fact is, our programs are cheaper now by more than one-half, and it is about time agriculture starting getting credit in that area.

INCOME FROM THE MARKETPLACE

The Food Security Act of 1985 definitely pointed us in the direction of getting more of our income from the marketplace, and we feel you should keep that same emphasis in the new law you will be writing. Along those lines of market orientation, many in agriculture are calling for changes in our current crop programs that would allow farmers to respond to price signals more effectively.

GIVE FARMERS PLANTING FLEXIBILITY

Most often, you hear that farmers should be allowed to grow more soybeans and oilseeds, without losing their ability to fully participate in the programs. We in the National Corn Growers Association know firsthand how confining the farm programs are, and we favor giving farmers increased planting flexibility.

There are already examples of the concept of flexibility in the current law, including the Secretary of Agriculture's ability to allow up to 10 percent of base substitute and the free substitution for oats in last year's drought bill. The "10/25" oilseed planting option for this year, which was also in the drought bill and is in the 1990 budget reconciliation plan, was also a step in a workable flexibility program. However, it gave USDA the final say in how many acres could be switched.

We will see another experiment in flexibility this year in wheat, under Secretary Yeutter's decision to allow farmers to plant 105 percent of their base acreage to wheat. We are looking forward to hearing wheat farmers' assessment of that option.

A major concern we have is that what is being left out too often in the ongoing debate about program flexibility is the word "farmer." If we truly want the market to dictate how many acres we should be planting to various crops, farmers should make the decision, not the government. That is true flexibility.

So, as you consider flexibility options, please do not allow the admirable goal of following market signals more closely, to be used as a cover for unintended cuts in the income that is so important to our producers across this country.

OTHER POINTS WE WILL BE RAISING AS THE FARM BILL DEBATE SPEEDS UP

Let me move quickly now to mention a few other points we will be raising as the farm bill debate speeds up. First, even though the decrease in support levels has helped put U.S. grain back in more competitive positions in world markets, we feel that no further reductions are necessary. Otherwise, we feel that the vigorous export expansion goals of the 1985 farm act should be continued. For example, we ask that you consider making the marketing loan mandatory for corn, if it can be shown that our exports face unfair competition in foreign markets.

Finally, in the 1990 farm bill or in other legislation, we urge you to support expansion for the various nontraditional uses of corn. That includes the extension of the field tax exemption for ethanol, efforts to expand the use of degradable plastics, and continuation of the U.S. sugar program. We must also work to ensure that the byproducts of corn processing, corn oil and corn gluten feed, can move unhindered into the world markets.

At the same time, let me assure you that we at the National Corn Growers Association are not forgetting about our biggest customer, the livestock sector. About 57 percent of our crop will be fed to livestock this year, and we are sincerely interested in the vitality of that industry.

In short, we feel that the 1985 Farm Act had several good points. Just do not overhaul the engine on my combine when a tune-up will do the job. I think you should concentrate your efforts on fine-tuning the successful provisions of the current law when you set to work on the 1990 farm bill.

We look forward to working with you in the months ahead. Thank you.

[The prepared statement and attachments of Mr. Kintzle follow:]

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STATEMENT BY

JACK KINTZLE
GOVERNMENT RELATIONS VICE PRESIDENT
NATIONAL CORN GROWERS ASSOCIATION

before the

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE
UNITED STATES SENATE

September 21, 1989

Mr. Chairman: I am Jack Kintzle, a corn farmer from Coggon, Iowa, serving as Government Relations Vice President of the National Corn Growers Association. I appreciate this opportunity to appear before you and your colleagues to discuss the outlook for new farm legislation upon the expiration of the 1985 Food Security Act. I would also like to congratulate your panel for providing an opportunity for the farmers and farm organization leaders to make their views known about the various provisions and authorities in the 1985 Food Security Act and any changes that we may recommend to it in 1990.

The 1985 Food Security Act has been one of the more successful and popular pieces of farm legislation in recent history. This 1985 Act has proved its value to corn farmers and others during periods of extremely large surpluses of corn and other grains, as well as during the crippling drought of 1988-89. I believe it is fair to say that the 1985 Food Security Act has been very successful in meeting four major objectives:

- avoiding overproduction through reasonable annual set-aside programs;
- restoring international and domestic price competitiveness through adjustment of price supports;
- maintaining a measure of income and price protection for farmers through acceptable levels of both target prices and loan rates, and;

- responding to the need to reduce all government spending in the quest for a balanced federal budget.

Due in large measure to last year's drought, corn stocks have been reduced substantially from their record level of over six billion bushels during mid-1980. Corn exports have also rebounded appreciably from the 1.2 billion bushels in the 1985/86 season. The United States Department of Agriculture is projecting that corn exports in 1988/89 will hit 2.075 billion bushels, regaining much of the lost ground in export markets that we experienced in the early part of this decade.

Overall federal outlays for agriculture in general and corn specifically have declined dramatically during the past four years under the 1985 Farm Act. For agriculture, the record high spending of just under $26 billion in fiscal 1986 has dropped precipitously to a projected $11.2 billion in fiscal 1990 -- a whopping 56 percent. For corn and feedgrains, the fall-off in annual federal expenditures is as equally dramatic: from $12.2 billion in 1986 to a projected $5.5 billion in 1990, or a 53 percent decline. What other sector of our U.S. society can claim such a sharp decline in federal outlays over a brief four (4) year period as U.S. agriculture's contribution toward moving to a balanced federal budget? For your information, I have attached a current briefing paper prepared by the National Corn Growers Association that documents these statements.

Many farm groups are suggesting that the 1990 Farm Bill include increased flexibility to allow the planting of non-program crops, such as soybeans, without endangering farmers' acreage bases.

NCGA favors a certain degree of leeway within the programs to make U.S. agriculture more responsive to market signals. However, we strongly oppose flexibility schemes which, in actuality, give the flexibility to the administration as a back-door method of cutting farm program spending.

True farmer flexibility programs should set parameters for acreage substitution and let the farmers have the final say -- without subsequent trips to the county ASCS office. This year's oilseed "10-25" plan was a step in the right direction, although it gave USDA the ultimate power to determine just how many acres could be switched over.

At the grassroots level, the majority opinion is that the 1985 Food Security Act has worked -- and has worked well! As you and your colleagues on the Agriculture Committee begin deliberations on a successor to the current farm act, we suggest you focus not on an overhaul of the programs, but on fine-tuning the successful provisions in the farm act and other pieces of legislation.

In a 1990 farm bill to be put in force for the 1991 crop year, we will have to address a growing concern for various environmental issues, including water and air quality and soil conservation. The whole complex of chemical usage in corn and other agricultural production now being considered in the overall sphere of "food safety" cannot be ignored by agriculture in drawing up a farm bill.

While much of the federal legislative efforts in "food safety" have taken place outside the congressional Agriculture Committees, you and your colleagues on this panel must press to share responsibility in writing such legislation. Moreover, in the entire area of environment and food safety, it is very obvious that you should consider authorizing a major research section of any new farm bill to determine what degree of regulation over usage and application of chemical inputs for corn production is safe and prudent.

Following a major research effort to determine proper tolerances and uses of chemicals with a view of maintaining water quality, clean air, and preventing soil erosion -- research that may be performed in conjunction with our fine land-grant universities -- we would be in a better position to legislate in areas for which the Environmental Protection Agency and the Food and Drug Administration now appear to be taking positions to accommodate public pressure. Having such scientifically reliable and documented data would allow us to write a responsible environmental/conservation title in future omnibus farm legislation. A good starting point may be the environmental conservation acreage reserve legislation that was introduced by Senator Dole in early 1988 to handle such matters.

While the decrease in support prices in the current act has returned us to a competitive position in the world grain trade, a simple continuation of the lowering of the supports is not necessary in new legislation. In 1990, the fifth and final year of the 1985 Act, the corn target price may be set as low as $2.75 per bushel and the loan rate just $1.57 per bushel. Current market conditions for corn and grain simply do not dictate a further decline in those support levels during the life of a new farm bill. In the event that inflation raises its ugly head again, we may actually need to consider some type of inflation clause that would adjust support levels to allow corn farmers to keep up with the likelihood of increasing costs for the production of corn.

Another major goal of the 1985 Food Security Act is the commitment to a vigorous export expansion program for corn and agricultural production. In this regard, I would urge you to seriously consider making the marketing loan for corn mandatory in any instance that it can be demonstrated that our corn exports face unfair price competition for overseas markets. In addition, the mandatory use of a marketing loan for corn must be on the basis of a recourse loan without a price floor in order to preclude some of the stock accumulation problems now facing some other agricultural commodities.

Whether in a 1990 farm bill or in other legislation, we urge you to continue to support and expand new and current industrial uses for corn. I have in mind here that the 6 cent per gallon exemption for ethanol from the federal motor fuel excise tax should definitely be extended to the year 2010. With this small federal incentive, our domestic ethanol fuels industry, which produces a cleaner burning fuel that is produced almost solely from corn, has grown from about 80 million bushels of usage in 1979 to just under 350 million bushels this year.

Use of degradable plastic bags and containers manufactured with corn starch must continue to be pressed at the national level from officials of your prominence. These moves would increase corn usage and further decrease program costs. With almost one (1) billion bushels of corn being used in various industrial forms, from ethanol to corn sweeteners, all of which use the starch component of corn, we must keep open the export market in the European Economic Community for corn gluten feed. In addition, we must move to find additional export markets for corn oil as well. Both corn oil and corn gluten feed are by-products of the corn processing industry; both products are excellent protein based products for human and animal consumption, respectively.

Even as we realize the potential for these new markets, rest assured we do not take for granted our major use -- livestock feed. Of the 7.321 billion bushels of corn USDA has most recently projected we will harvest in the U.S. this year, 57 percent, or 4.2 billion, will be fed to livestock. A vigorous livestock sector is important to us at the National Corn Growers Association, especially since many of our members are cattle, pork or poultry producers as well.

In addition to my testimony, I have attatched several additional briefing papers prepared by the National Corn Growers Association for background on our positions regarding several specific issues. I thank you again for inviting me to testify before your subcommittee and assure you that the National Corn Growers Association stands ready to work with you in drafting new farm legislation in the coming year.

National Corn
Growers Association

Issue: FEDERAL BUDGET/AGRICULTURE IN FY 1990 BUDGET

Background: Following the October 19, 1987, stock market plunge, Congress developed a two-year, $76 billion budget reconciliation package to bring the federal deficit in line with the Gramm-Rudman-Hollings (GRH) deficit reduction requirements. These efforts were undertaken to avoid an automatic 8.5 percent sequestration (an estimated $.16/bushel in 1988) of federal spending. For agriculture, this deficit reduction package required farm spending to be reduced by $900 million in 1988 and an additional $1.5 billion in 1989. For corn growers, these actions required an additional reduction of 1.4 percent in the target price for 1988 and 1989 crops -- in addition to the scheduled reductions in the 1985 Farm Bill.

Discussion: President Bush's first budget message to Congress made little mention of additional cuts in farm spending. However, the written version of President Bush's budget plan for agriculture seems to "mirror" the Reagan budget. That means a proposed $1.1 billion cut in farm program spending for fiscal 1990. The Reagan budget also called for farm programs to be cut an additional $2 - 2.5 billion each year from 1991 - 1994. Bush's exact agricultural spending priorities are still somewhat sketchy at this point. He has repeatedly noted the need for opening export markets and placing additional emphasis on new research. However, he's been reluctant to pinpoint where cuts would be made to finance these or other new initiatives. Most likely ways to reduce farm program spending: lower target prices or reduce the number of base acres eligible for farm programs. The feed grains program will continue to be a prime target for budget cutters, even though spending has dramatically declined. The chart below shows USDA estimates for net CCC program outlays by commodity. This information was included in President Reagan's USDA budget proposal.

Commodity	Fiscal Years 1986	1987	1988	1989	1990
	----------million dollars ----------				
Feed Grains	$12,211	$13,967	$ 9,053	$ 3,042	$ 5,562
Wheat	3,440	2,836	678	279	1,052
Rice	947	906	128	999	959
Cotton, Upland ...	2,142	1,786	666	2,538	994
Tobacco	253	-346	-453	-569	-280
Dairy	2,337	1,166	1,295	662	893
Soybeans	1,597	-476	-1,676	-32	116
Honey	89	73	100	60	55
Wool	123	152	131	89	98
Disaster Assist. .	- 0 -	- 0 -	- 0 -	4,515 a/	- 0 -
Other	2,702	2,344	2,539	2,260	2,130
Total CCC Outlays Under Current Law	$25,841	$22,408	$12,461	$13,843	$11,579

Notwithstanding budget reduction action in 1987 and 1988, the potential for additional budget cutting in 1990 is increasing. Unfortunately, agricultural spending is often mentioned as a likely source of budget savings. Therefore, it is important to note the significant contributions agriculture already has, currently is, and is projected to make to reduce spending and subsequently deficit reduction. Agriculture recognizes the importance of reducing the federal deficit and its potential impact on the national economy. At the same time, however, Congress and the Administration must recognize that agriculture has already made a tremendous contribution towards budget savings. Therefore, equity and balance must be the order of the day should the need arise to consider additional spending reduction alternatives.

Action: As additional budget reductions are needed through either Gramm-Rudman-Hollings sequestrations or budget reconciliation actions, require that all sectors of the government and the economy share equally in any budget adjustment that is taken -- but stressing the disproportionate USDA contributions in reducing the federal deficit through sharp reductions in farm expenditures over the past three years. It should be emphasized also that USDA's annual entitlement expenditure is just under 4% of the total such federal expenditures but is potential exposed to a 20% reduction under GRH sequestration orders.

National Corn
Growers Association

Issue: MOST-FAVORED-NATION (MFN) STATUS FOR THE SOVIET UNION

Background: The history of U.S. and Soviet grain trade is simply replete with difficulties inasmuch as there has been various clashes of social, economic and political interests both at home and in third-countries. The real beginning of Soviet purchases of U.S. corn and wheat began in 1971 following the authorization of a three-year CCC line of commercial credit to the Soviet Union. That line of CCC credit provided for up to $750 million dollars of CCC credit for a three-year period of time, but not to exceed $500 million dollars of purchases within any individual year and to be repaid in three equal annual payments of both principle and interest. As you know, the Soviet Union made maximum use of that CCC credit facility, and repaid the facility on time.

Because of the U.S. concerns about the out-migration of Jewish dissidents in the early 1970's, several laws were passed that placed severe limitations on any further extensions of U.S. Government direct or indirect credits for import purchases by the Soviet Union: the Stevenson Amendment in 1972 and the Jackson-Vanik Amendment in 1974. The latter amendment required that the President must certify that the Soviet Union was, among other things, allowing the permissible applicants for Jewish out-migration each year. Since the early 1970's the Soviet record in this regard prevented any President from making that certification in the United States Congress.

Even in the absence of U.S. Government sponsored credit programs, the Soviet Union made surprisingly large purchases of both corn and wheat in the mid-1970's, a development that resulted in the 1975 US-USSR Grain Agreement that essentially limited the Soviet access to U.S. grain markets with significant supervision by the U.S. Department of Agriculture.

We need not discuss the Soviet invasion of Afghanistan and the ensuing embargo on commercial trade between the United States and the Soviet Union. Although the 1975 Grain Agreement was not abrogated, the annual purchase volume by the Soviet Union was strictly adhered to. Nonetheless, in 1983 a new and expanded five-year grain agreement went into place. It has now been extended for another two and one-quarter years, due to expire on December 31, 1990.

Recent advances and modifications of both domestic and international policies under Gorbachev in the late 1980's strongly suggest a review of the restrictions on commercial agricultural trade required by either the Stevenson Amendment, the Jackson-Vanik Amendment or both:

- scheduled Soviet withdrawal from Afghanistan
- upwards to 20,000 out-migrations of Jewish dissidents in 1988
- introduction of "perestroika" that is really a movement towards a market-oriented economy for the allocation of sources resources

- various arms control agreements and the outlook for further negotiations on other military-security matters

- Soviet initiatives to join the GATT, the World Bank, etc.

- recently concluded commercial accord between the COMECON Countries and the European Economic Community

- almost $5 billion in credits and lending facilities from EC countries to the Soviet Union

Discussion: It is now time for the United States to reassess its policies toward both agricultural and other sector trades with the Soviet Union -- if for no other reason than to remain competitive with other foreign countries and particularly with the EEC competition in grain and agricultural trade with the Soviet Union. This reassessment must begin with both the Stevenson and Jackson-Vanik amendments, as well as the long-held U.S. position to oppose Soviet membership in the General Agreement on Tariffs and Trade (GATT).

While corn and other grain trade continues to prevail under the 1985 US-USSR Grain Agreement, the real potential for U.S. corn and grain exports cannot be realized until such trade is placed on a genuine commercial basis -- including such usual commercial facilities as credit and including CCC credits for Soviet purchases of U.S. corn and agricultural products (see Attachment "A" called "U.S. - U.S.S.R. Grain Agreement").

Within the context of further federal budget reductions that will result in further declines in federal outlays for U.S. corn and agricultural programs, we must look to increased disappearance of our agricultural production in order to realize higher prices from the marketplace. There is no better way to achieve this goal than to put into place commercial credit and export policies for agricultural exports, such as the re-authorization of commercial CCC credits to the Soviet Union and the U.S. support of Soviet membership in the General Agreements on Tariffs and Trade.

Most-Favored Nation (MFN) status is a commitment by a country to extend to another country the lowest tariff rates or the most favorable non-tariffs policies that it applies to any third country. All contracting parties to the General Agreement on Tariffs and Trade (GATT) undertake to apply such nondiscriminatory treatment to each other. The United States bilaterally extends MFN status to all market economies, but excludes non-market economies from receiving MFN benefits, with the exception of Poland, Hungary and Yugoslavia. For the U.S., the denying of MFN status is directly linked to human rights issues through the Jackson-Vanik provisions in the Trade Act of 1974. The objective of Jackson-Vanik is to exert economic pressure on non-market economies to allow free emigration of their citizens. In the case of the Soviet Union, the human rights issue is closely tied to allowing Jewish emigration.

The U.S. is prohibited by Jackson-Vanik from granting non-market economies the following: (1) Most-Favored Nation treatment if they did not already qualify on January 3, 1975 (Poland and Yugoslavia qualified), (2) U.S. government credit or credit guarantees, or investment guarantees, and (3) commercial agreements that provide for MFN treatment or other mutual rights and obligations. The lack of MFN status, and the discriminatory treatment implicit in that restriction, are of major concern to the Soviet Union in its trade relations with the United States.

The U.S. has had a large trade surplus with the Soviet Union largely because of Soviet grain imports. The Soviets believe strongly in reciprocal trade and have attempted to link reduced grain purchases to efforts to eliminate the trade deficit with the United States. The granting of MFN status to the Soviet Union would eliminate discrimination against Soviet imports into the U.S. and allow the Soviets to compete on a more equitable basis with other suppliers. An increase in U.S. access of Soviet goods could translate into an increase in Soviet purchases of U.S. agricultural commodities.

Action: Urge the U.S. to offer Most-Favored Nation (MFN) status to the U.S.S.R., and the necessary modifications of law to accomplish this objective.

ATTACHMENT 'A'

U.S. - U.S.S.R. LONG TERM GRAIN AGREEMENT

The salient provisions in the 1983 grain agreement were as follows, and the five-year agreement was extended until December 30, 1990:

- the United States would offer at least four million tons of corn; four million tons of wheat, and/or 500,000 tons of soybeans to the Soviet Union each year of the agreement. Soviet purchases of the 500,000 tons of soybeans would count for one million tons of either corn, wheat or both.

- the Soviet Union would purchase at least the annual minimum of corn, wheat and/or soybeans each year, with the benefit of increasing its annual corn and wheat purchases by an additional three million tons without any further consultations with the United States.

- under Article I of the 1983 Agreement, it is specified "... purchases/sales of commodities under this Agreement will be made at the market price prevailing for these products at the time of purchase/sales and in accordance with normal commercial terms..."

For the period from October 1, 1983, to the present, U.S. grain export sales to the Soviet Union for import purchases have been as follows as of March 15, 1989:

Year 1/	Corn	Wheat	Soybeans	Soymeal	Total
		(Million Tons)			
1983/84	6.5	7.6	0.5	-0-	14.6
1984/85	16.7	2.9	-0-	-0-	18.7
1985/86	6.8	0.2	1.5	-0-	8.5
1986/87	1.5	-0-	-0-	-0-	1.5
1987/88	5.2	9.1	0.3	1.3	16.4
1988/89 2/	10.2	4.0	0.5	1.4	16.4
Cum. Totals	45.9	23.8	3.3	2.7	75.7

1/ Shipping year of the basis of October 1 - September 30.

2/ 507,000 tons of U.S. grain sorghum has been purchased by the Soviet Union, and is not included in "Total".

National Corn
Growers Association

Issue: SUGAR

Background: The 1985 Farm Bill extended the sugar program and its 18 cents per pound loan rate through 1990. To eliminate the prospect of financial exposure to the federal government, the legislation required that the sugar program be operated at "no net cost". Accordingly, the USDA annually adjusts the sugar import quota to maintain this economic equilibrium.

Since its inception, the sugar program has been under almost continuous attack from the administration and sugar users. Most recently, legislation was introduced to cut the loan rate from 18 cents per pound to 12 cents per pound, provide "transition" payments to sugar beet and sugar cane growers and establish an annual import quota at not less than 2 million short tons. The importance of the U.S. Sugar Program to corn growers cannot be understated. In 1987 alone, 540 million bushels of corn were consumed to produce high fructose corn sweeteners, providing corn growers with their third largest market behind livestock and export markets.

Unfortunately, this legislative proposal does little to resolve many of the problems it was designed to benefit-consumer prices, Caribbean Basin countries, and the balance of trade. To exemplify this point, on September 5, 1986, Secretary of Agriculture Richard Lyng stated ...

> "EC farm price supports throughout the 1970s pushed the Community from status as a net importer to a major producer and a net exporter of sugar. Since 1977, when the EC became a net exporter, internal price supports for sugar have risen by 70 percent. During that time, the EC has dumped on the world market nearly 25 million metric tons of sugar. 'Dumped' is the apt term because the EC has taken every measure to avoid accumulation of ending stocks. During the years since 1977, EC ending stocks have not changed while world ending stocks have increased by more than 25 million tons."
>
> The less developed countries bear the brunt of this policy. Dumping sugar has depressed the prices of the stocks which they must sell. This has resulted in billions of dollars of losses in export earnings."

In addition to EC dumping, another pressure undermining the viability of the sugar program is rapidly expanding imports of sugar-containing products. These imports have increased by more than 300 percent since 1982, totalling 1.48 million short tons in 1986.

Discussion: It is difficult, it not impossible, to modify the sugar program as long as EC dumping continues and the importation of sugar-containing products is not controlled.

The current sugar program works

- at no cost to the federal government.

- as resistance to predatory foreign sugar policies. The average world cost of raw sugar is $.15 per pound for cane and $.23 per beet, but the current world price is approximately $.08 per pound due to foreign subsidies. Weakening the sugar program would signal U.S. acquiescence to the unfair sugar subsidies of the EC and other exporters.

- as protection for U.S. consumers. Lower sugar supports which would destroy the U.S. industry, will not lower prices for consumers but will leave the consumers at the mercy of volatile world sugar prices. In the end, U.S. consumers may pay more for sweeteners, not less. For example, since 1980, although U.S. sugar prices have gone down 5.3 per cent, the price of sugar-containing products has risen 30 percent, since industrial users have not passed on savings.

- to preserve a competitive domestic industry. U.S. sugar is produced at about the average world cost. High fructose corn sweeteners are the lowest cost sweeteners in the world.

Action: The NCGA strongly supports maintaining the sugar program to insulate the U.S. sweetener industry from the effects of foreign subsidized sugar exports until such foreign subsidies are eliminated.

National Corn
Growers Association

Issue: DEGRADABLE PLASTICS

Background: Since the late 1940s, the use of plastics for packaging has grown by leaps and bounds. The proportion of plastic in waste has grown to the point where the immense quantities requiring disposal have become a problem.

Plastics waste is not only a problem in waste management. Improper disposal of plastic materials in waterways and on land has become an increasing concern due to its unsightly nature and the damage caused to wildlife through entrapment or ingestion.

Using cornstarch in the production of plastics can make them more digestible to fungi and bacteria and therefore, degrade in three to five years rather than centuries. Corn based degradable plastics not only diminish the problem of plastic wastes, but also create a new market for U.S. corn growers.

Discussion:

- Plastics contribute over 7 percent by weight and over 30 percent by volume of the garbage discarded into the solid waste stream.
- Each American currently produces about five pounds of garbage a day compared to 2.9 pounds a day in 1960.
- The EPA estimates that 27 states will face severe landfill capacity problems within five years.
- More than 90 percent of America's waste is buried in landfills.
- Landfill is the cheapest method of disposal, sometimes as low as $3 per ton. But as landfill space becomes scarce, disposal fees of more than $100 per ton have been reported.
- Incineration is another method of waste disposal. However, the public is concerned about air pollution from this method as well as toxic ash.
- Recycling has its problems including the instabilities of markets for some of the materials and technical barriers to the recycling of mixed materials especially when it relates to the many different types of plastics used.

Action: We encourage your support for initiatives to foster the development and growth of cornstarch based degradable plastics thereby creating a new market for the nation's largest renewable resource - CORN.

National Corn
Growers Association

Issue: ETHANOL

Background: The domestic fuel ethanol industry came into existence in the late 1970s in response to gasoline shortages and the need for alternate sources of liquid fuel to reduce dependence on foreign oil. While ethanol was originally used to extend supplies of petroleum-based fuels, ethanol has become one of the most valuable additives available to boost gasoline octane.

In 1988, the domestic fuel ethanol industry produced and marketed over 850 million gallons of ethanol, creating a cash market for some 340 million bushels of grain, increasing farm income by an estimated $1 billion and lowering federal farm program costs by $700 million. Ethanol has become one of the nation's premier octane enhancing additives for today's gasolines.

Today, fuel ethanol blends have won substantial consumer acceptance with an 8 percent share of the national automotive fuel market. Since 1980, consumers have driven over 500 billion miles on ethanol blended fuels, and every automobile manufacturer in the world recognizes ethanol's performance benefits and provides full warranty coverage for 10 percent ethanol blends.

In addition to raising the octane of gasoline by three full points, ethanol has a number of significant environmental benefits which make it an effective pollution reduction option for the nation's 90 carbon-monoxide and ozone non-attainment cities. Colorado is currently requiring the use of oxygenated fuels to reduce carbon-monoxide levels. Other states, Arizona, New Mexico and Nevada for example, will implement ethanol blended programs in late 1989 as part of their State Implementation Plans to come into compliance with EPA standards. Specifically, the use of ethanol blends will reduce motor vehicle emissions of carbon monoxide by approximately 25-30 percent. Because the oxygen content of an ethanol blend is almost twice that of other oxygenated fuels, its ability to reduce carbon monoxide levels is greater than any alternative oxygenated fuel.

Discussion: Since 1978, the U.S. Congress and many states have taken significant steps to encourage the production and use of fuel ethanol. Currently, the law provides for a cents per gallon excise tax exemption on any gasoline which contains at least 10 percent ethanol. The excise tax exemption expires on September 30, 1993.

Action: We encourage your continued support for initiatives to foster the development and growth of a domestic ethanol industry. Specifically, we would encourage the extension of the excise tax exemption for ethanol blended fuels to the year 2000 and the expanded use of ethanol for its environmental and octane enhancing properties to achieve a goal of 1.2 billion bushels of annual corn consumption for ethanol by 1995.

Senator **Conrad**. Thank you, Mr. Kintzle.

If I might, I will just direct a question to you, and then we will proceed with the rest of the panel.

I earlier talked about the administration projections on their budget submissions on target prices, and in those budget submissions they have indicated their plan to go to $2.39 on corn in 1990 on a target price. Could you just give us, for the record, your reaction to a $2.39 target price? What would be the effect on your producers of a $2.39 target price in 1994? That is not, by the way, adjusted for inflation, that is actual $2.39 a bushel in 1994. That is not in today's dollars.

Mr. **Kintzle**. Well, there is no question, Senator, that it would have a drastic effect on the down-side on farm income. I think that is not even questionable.

Senator **Conrad**. Could you make it on $2.39 corn in 1994?

Mr. **Kintzle**. I would say my farm operation, you could look at $2.39, first of all, are you talking a cash price on the farm? Probably not. Are you talking—we do not know, like you said earlier, what our costs are, and the other thing you have got to remember in agriculture, even if I was an individual that said I could, we have such a discrepancy, we have a young guy that is trying to get started in agriculture, he does not have the time certificates and the farm paid for, he has a bunch of farm debt and a family, so there is a great difference.

Senator **Conrad**. Thank you very much.

We will now hear from Richard Perry, vice president of the National Grain Sorghum Producers Association.

Welcome.

STATEMENT OF RICHARD PERRY, VICE PRESIDENT FOR LEGISLATION, NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION, ABERNATHY, TX

Mr. **Perry**. Thank you, Mr. Chairman. I appreciate the opportunity to be here.

INTRODUCTION

The National Grain Sorghum Producers Association (NGSPA) appreciates the opportunity to express its views on the 1990 farm bill, and future agricultural programs. My name is Richard Perry, and I am a grain sorghum and cotton producer from south Texas, in Nueces County, near Corpus Christi. I am currently serving as vice president for legislation for NGSPA. You will note that, instead of coming before you with a request to establish a rigid mandatory supply management program, our recommendations are to set policy guidelines that the Secretary of Agriculture will be required to implement through the various supply management and export enhancement programs that are available to him. We propose that the Secretary of Agriculture be required to hold feed grain carryover stocks at a manageable level, through an individual program or a combination of programs, and operate within reasonable budgetary restraints.

NGSPA COMMENDS THOSE SENATORS WHO HAVE TAKEN THE STAND THAT FUTURE U.S. FARM POLICY WILL NOT BE WRITTEN IN GENEVA

NGSPA commends those Senators who have taken the stand that future U.S. farm policy will not be written in Geneva, through the GATT process. Our association has been very concerned about several provisions that have been promoted as the "U.S. position" for the current GATT negotiations. A few biased negotiators should not be allowed to trade off U.S. agricultural programs and interests.

SPECIAL THANKS

I want to express special thanks to Senator Dole and others who worked on the disaster programs that have recently been enacted to help the second planting on disaster wheat acres, to try to help that be administered in a more equitable way.

I also want to thank Senators Kerrey, Daschle, Conrad, and others for speaking out on the recent move of USDA to again encourage wasteful expansion of 1990 wheat acreage, and consequently lower the wheat and feed grain prices.

NGSPA SUPPORTS THE CONTINUATION OF PROVISIONS OF THE FOOD SECURITY ACT OF 1985

The National Grain Sorghum Producers Association supports the continuation of provisions of the Food Security Act of 1985 and any additional legislation necessary that will:

Maintain farm income target prices at no less than the higher of the 1989 levels or the 3-year U.S. average USDA-ERS full cost of production per commodity, including land costs and a 15 percent return to management.

Cut the cost of U.S. farm programs by allowing domestic market prices to more accurately reflect the cost of feed grain production. Maintain a higher domestic grain price, while moving grain into world markets, by using export enhancement programs to assure the U.S. share and growth in world markets. NSGPA is convinced that this approach will cut Government costs, since domestic consumers would not be subsidized.

Allow producers the flexibility of exchanging their commodity bases up to 20 percent per year of their total farm base, provided it does not increase the total farm base acres.

Extend the Export Enhancement Program (EEP) to include all U.S. feed grains and all purchasing countries to assure U.S. export competitiveness, to maintain and expand the U.S. market share and to annually remove all surplus feed grain stocks above 16 percent of a normal year's use. Emphasis on the use of EEP should be given to the grain that has the largest carryover in percentage of a year's normal usage.

Allow producers to retain their total farm base acres, without being required to plant them to any program crops. Base acres should not be lost due to underplanting program crops. Many farmers have been forced to plant a crop that is in surplus, in order to protect their base.

INCORPORATE THE FOLLOWING FARM PROGRAM CONCEPTS

We urge the incorporation of the following farm program concepts—I will read a few of these:

Eliminate limitation of farm program payments; prevent decoupling of feed grain payments from commodity payments, but we support the current concept of 0/92; treat agriculture equitably with other businesses on capital gains tax laws; make Federal crop insurance an option, but not a requirement, of farm program participation and treat farm units which are separated geographically or as irrigated and nonirrigated as separate entities for FCIC indemnities.

Improve grain quality through the FGIS standards, based on scientific measures, instead of subjective means; complete the CRP signup of no less than 40 million acres; establish environmental protection programs that are based on unbiased scientific studies and which have a fair regard for the importance of agriculture and an honest assessment of the needs of agriculture; establish consumer education programs, to be conducted by USDA, to educate U.S. consumers to the comparatively low cost of food and to the importance of agriculture to the American way of life.

Mr. Chairman, there have been several myths about U.S. world production of feed grains. Please carefully study the following statements and charts. I have two charts attached. One of them is illustrating the inelasticity of feed grain demand (chart A). When the price changes, the demand for grain remains fairly stable, going back to 1978 to the present time. There is no significant increase in use as prices decline worldwide.

The second chart, chart B, indicates that U.S. corn prices and world planting in million hectares, as the prices change, the amount of acres planted in the world has not changed significantly.

Mr. Chairman, it is our pleasure to present our views to the Committee on Agriculture, Nutrition, and Forestry, and NGSPA looks forward to working with you in the development of the 1990 farm bill.

Thank you for this opportunity.

[The prepared statement and charts A and B of Mr. Perry follow:]

NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION

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STATEMENT OF
NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION
TO THE
COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY
U.S. SENATE
WASHINGTON, D.C.
SEPTEMBER 21, 1989

STATEMENT OF NATIONAL GRAIN SORGHUM PRODUCERS ASSOCIATION TO THE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY U.S. SENATE

September 21, 1989

Mr. Chairman and Members of the Committee:

National Grain Sorghum Producers Association (NGSPA) appreciates the opportunity to present its views on the 1990 Farm Bill, and future agricultural programs. My name is Richard Perry, and I am a grain sorghum and cotton producer from South Texas in Nueces County, near Corpus Christi. I am currently serving as Vice President for Legislation for NGSPA. You will note that instead of coming before you with a request to establish a rigid or mandatory supply management program, our recommendations are to set policy guidelines that the Secretary of Agriculture will be required to implement through the various supply management and export enhancement programs that are available to him. We propose that the Secretary of Agriculture be required to hold feed grain carryover stocks at a manageable level through an individual program or a combination of programs, and operate within reasonable budgetary restraints.

NGSPA commends those senators who have taken the stand that future U.S. farm policy will not be written in Geneva. Our association has been very concerned about several provisions that have been promoted as the "U.S. position" for the current GATT negotiations. A few biased negotiators should not be allowed to trade off U.S. agricultural programs and interests.

The National Grain Sorghum Producers Association supports the continuation of provisions of the Food Security Act of 1985 and any additional legislation necessary that will:

1. Maintain farm income target prices at no less than the higher of (a) the 1989 levels or (b) the three-year U.S. average USDA-ERS Full Cost of Production per commodity, including land costs and 15% return to management.

2. Cut the cost of U.S. farm programs by allowing domestic market prices to more accurately reflect the cost of feed grain production. Maintain a higher domestic grain price while moving grain into the world markets by using Export Enhancement Programs to assure the U.S. share and growth in world markets. NGSPA is convinced that this approach will cut government costs since domestic consumers would not be subsidized.

3. Allow producers the flexibility of exchanging their commodity bases up to 20% per year of their total farm base, provided it does not increase the total farm base acres.

4. Require the Secretary of Agriculture to manage production programs to assure the production of all commodities needed to fill domestic and export demand, but not allow reserve or carryover stocks of more than 16% of a normal year's use of U.S. feed grains. (16% equals a two month supply.)

5. Extend the Export Enhancement Program (EEP) to include all U.S. feed grains and all purchasing countries to assure U.S. export competitiveness, to maintain and expand the U.S. market share and to annually remove all surplus feed grain stocks above 16% of a normal year's use. Emphasis on the use of EEP should be given to the grain that has the largest carryover in percentage of a year's normal usage.

6. Allow producers to retain their total farm base acres without being required to plant them to any program crops. Base acres should not be lost due to underplanting program crops. Many farmers have been forced to plant a crop that is in surplus in order to protect their base. This prevents the supply-management program from being as effective as it could be, and causes inefficient production practices in some years.

7. Incorporate the following farm program concepts:

   a. Allow producers the option of proving their program yields or accepting the established county yields.

   b. Eliminate limitation of farm program payments.

   c. Prevent decoupling of feed grain payments from commodity payments, but support the current concept of 0-92.

   d. Continue the haying and grazing provisions of the present program.

   e. Reinstate income averaging for farmers' income tax assessments.

   f. Reinstate investment tax credit programs for farmers.

   g. Continue the farmer-owned reserve with storage payments for farmers at the same level as for commercial storage.

h. Treat agriculture equitably with other businesses on capital gains tax laws.

i. Make Federal Crop Insurance an option, but not a requirement, of farm program participation and treat farm units which are separated geographically or as irrigated and non-irrigated as separate entities for FCIC indemnities. NGSPA also believes that the total Federal Crop Insurance and disaster programs should be carefully analyzed. NGSPA would like to offer additional suggestions about these programs when they are reviewed by your committee.

8. Maintain an aggressive export marketing program through an expanded FAS budget designed to increase export sales of U.S. agricultural products.

9. Continue current contract sanctity legislation.

10. Improve grain quality through FGIS standards based on scientific measures instead of subjective means.

11. Complete the CRP signup of no less than 40 million acres, and:

    a. Maintain the sodbuster and swampbuster programs according to the original intent of the legislation.

    b. Conduct a study to assess the harm to surrounding crop acreages from CRP land.

    c. Maintain the CRP land to control insect, disease, and weed problems.

    d. Manage the CRP allocation to minimize the adverse effect on rural communities.

12. Extend Conservation Compliance Program deadlines when plans call for improvements which are eligible for cost-sharing funds and those funds are not available.

13. Protect and assure water quality standards supported by scientific studies, taking into account differences that are unique to each region, and maintaining local control.

14. Establish environmental protection programs which are based on unbiased scientific studies and which have a fair regard for the importance of agriculture and an honest assessment of the needs of agriculture.

15. Establish and maintain food safety standards based on scientific evidence.

16. Oppose the reclassification of anhydrous ammonia as a poisonous gas.

17. Promote the use of ethanol fuels made from agricultural products.

18. Establish and conduct rural economic development programs supported jointly by the USDA and state departments of agriculture with direction from local governments.

19. Keep the Food Stamp Program in USDA.

20. Give research funding priority to projects aimed at immediate needs, such as:

    a. Cost-efficient production and low input sustainable agriculture.

    b. New uses and increased utilization of commodities now in production.

    c. Increased competitiveness of U.S. products in world markets.

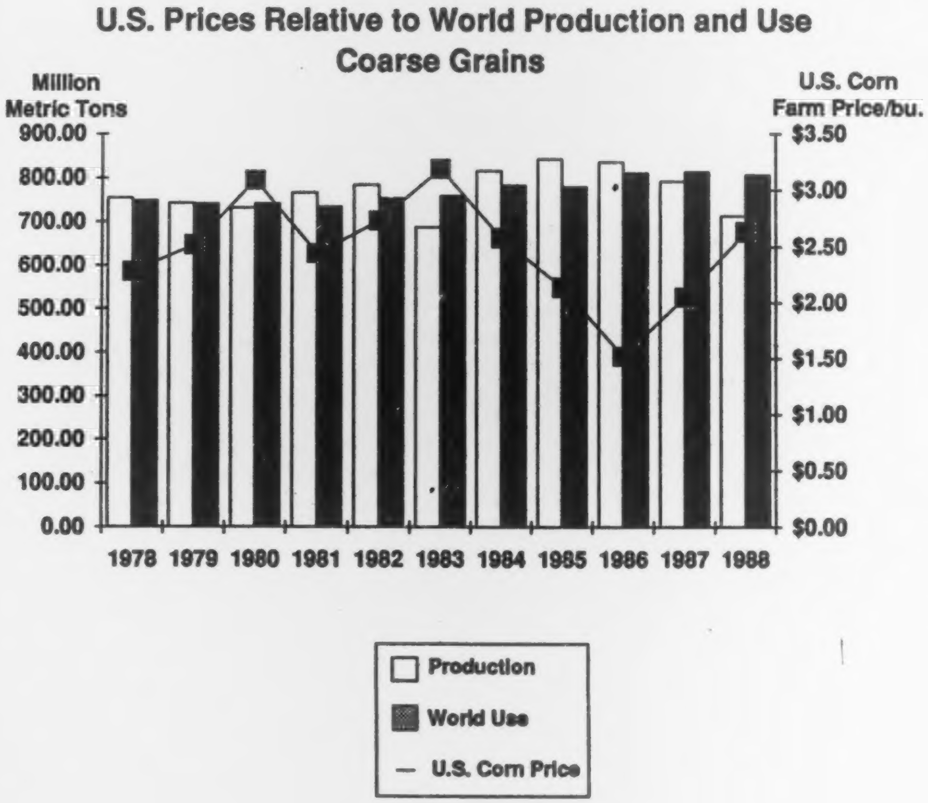
    d. Establishment of scientifically proven acceptable levels of mycotoxins and other harmful substances associated with agricultural products.

21. Establish consumer education programs to be conducted by USDA to educate U.S. consumers to the comparatively low cost of food and to the importance of agriculture to the American way of life.

Mr. Chairman, there have been several myths about U.S. and world production of feed grains. Please carefully study the following statements and charts:

(1) The statement is often made that market clearing prices will increase the demand for feed grains. However, the fact is that lower prices have very little effect on total feed grain consumption. World coarse grain prices are set by the demand for the grain in relation to the current available supplies. U.S. farm prices are a reflection of world prices. The inelasticity of feed grain demand is very evident in Chart A. There is no significant increase in use as prices decline.

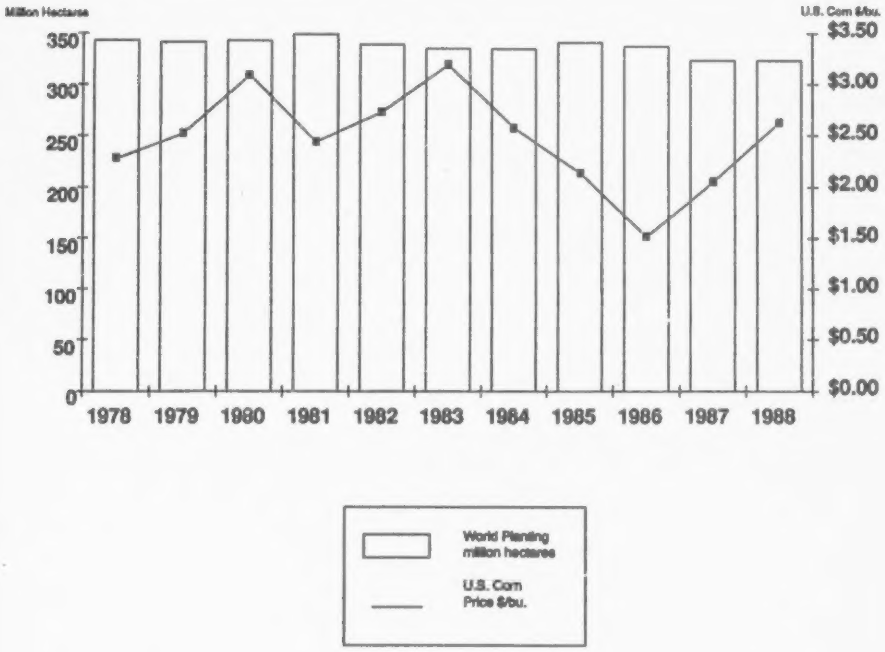
Chart A



(2) Another false or misleading statement is that high U.S. feed grain prices encourage increases in world planting. The facts, however, show there is very little change in world planting in response to prices. Chart B shows that the trend in planting is slightly downward. Yields, on the other hand, are trending slightly upward.

Chart B

U.S. Corn Prices and World Planting in Million Hectares



Mr. Chairman, it is our pleasure to present our views to the Committee on Agriculture, Nutrition and Forestry. NGSPA looks forward to working with you in the development of the 1990 Farm Bill. Thank you for this opportunity.

Senator **Conrad**. Thank you.

Let me ask you the same question that I asked the previous witness. If sorghum was reduced in the same way that corn is reduced in the administration's budget projections, you would have a target price in 1994 of $2.27. In today's values, that would be equivalent to probably $1.80 or $1.90. Can you, just for the record, tell us what the effect would be on your producers?

Mr. **Perry**. I dare to say that would affect the—we like to think in terms of the average producer, and that would be below his cost of production, he would go into debt further or have to sell out.

Senator **Conrad**. All right. It is fair to say, when I characterized it as devastating, that that is not an overstatement?

Mr. **Perry**. That is true.

Senator **Conrad**. Let me now go to our next witness, Louis Arnold, president, National Barley Growers Association, from Esmond, North Dakota.

Welcome, and if you would proceed with your testimony.

STATEMENT OF LOUIS D. ARNOLD, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, ESMOND, ND

INTRODUCTION

Mr. **Arnold**. Good morning Mr. Chairman and committee members. I am Louis Arnold of Esmond, North Dakota. I am president of the National Barley Growers Association and a member of the North Dakota Barley Council. I appear today as a representative of the National Barley Growers Association.

It is a pleasure to be able to testify on the 1990 Food Security Act (FSA), as a barley producers and as a representative of other producers. Barley producers generally feel there have been several areas in past farm bills that tend to relegate barley to a secondary position. Thus, the opportunity to discuss these discrepancies is appreciated, as is the opportunity to convince the framers of the 1990 act to modify the several inconsistencies, as I shall point out.

WE ARE A NEW ORGANIZATION

By the way, we are a new organization. This is our first attempt at coming in here and having some input into the farm bill and, as a new organization, we do not quite know what to expect and, being as this is our first crack at it, please bear with me.

BARLEY PRODUCERS WANT BARLEY TO BE SPECIFICALLY CONSIDERED IN THE 1990 FOOD SECURITY ACT

Barley producers want barley to be specifically considered in the 1990 Food Security Act and request removal of the discretionary powers of the Secretary to include or exclude barley from the program. It is also their contention that each feed grain should stand on its own merits and be evaluated accordingly. In fact, because of barley's unique dual qualities for use as a food and for feed, we suggest development of a separate section within the FSA to better evaluate the various marketing avenues of use that barley can enter. Now, what I am talking about here is a separate section within the title of feed grains. There is precedence for development of special sections in that the Food Security Act of 1985, includes a section for "corn silage."

SOME REASONS WHY BARLEY SHOULD BE GIVEN A SEPARATE SECTION

Some reasons why barley should be given a separate section relate to this division of barley into feed, malting and food uses. A look at the price relationship between Malting barley and Feed barley is a good indication of the complexity of the crop's utility, a factor that only intensifies the discrepancies between barley and other feed grains when comparisons are made.

I would like to quote some market prices for Midwestern barley as an example of problems that arise when attempting to put barley into the mold of other feed grains. Minneapolis—Six-rowed Malting barley top for Tuesday, this last Tuesday, September 19, was $2.80 to $3.70 per bushel. The same day, Feed barley was quoted at Duluth at $2.05 per bushel. These two markets are the customary terminal markets for these two types of barley from the Midwest. The 75 cents to $1.65 spread between the two types of barley can cause extreme confusion in attempts to write a single program fair to producers of each barley type. This is especially confusing when attempting to evaluate barley based on its relation to other feed grains.

A separate section would allow consideration of barley on its own merits, including allowances for the variability in the malting market and the feed market. It would allow for development of a more stable relationship between supply and demand as the specific factors that affect the amount of barley on the market could be more closely evaluated.

A separate section for barley would allow for the establishment of more equitable loan and target price levels. Currently, these levels are established on the basis of barley's feed value in comparison to corn. It is generally accepted that USDA sets barley at 80 to 85 percent the energy value of corn. Using only energy values in place of evaluating the entire range of feed value of barley places barley at a disadvantage, depriving the barley producer of the true value of his product.

BARLEY PRODUCERS WOULD LIKE THE METHODS OF CALCULATING LOAN PRICE AND TARGET PRICE TO BE BASED ON THE COST OF PRODUCTION

Barley producers would like the methods of calculating loan price and target price to be based on the cost of production. They are of the opinion that basing loan and target price on cost of production would be the most equitable method of evaluating price deficiencies and other support programs. A suggestion as to how this could be accomplished would have loan price equal the variable cash cost of production, including a 10 percent allowance for unpaid family labor and management. Target prices would be based on the total economic cost of production, again adding a 10 percent allowance. This would do two important things: One, it would allow barley to stand on its own merits; and, two, it would tend to equalize the disparity that now creeps into the formulas used in calculating deficiency payments.

I have included a table, and I am not going to dwell on that. It can be looked at and used for reference.[7]

The current laws reads that target prices for barley, sorghum and oats are to be set at "fair and reasonable levels" in comparison to corn. It is easy to visualize from the chart calculations that this is not necessarily the case. A good indicator in evaluating the equality of the programs is to compare grower participation in the farm program. Preliminary 1989 signup figures indicate farmer participation in the corn program, signed up over 80 percent of the eligible base acres, while barley producers came in at around 67 percent, and oats was down to I think around 40 percent.

This comparatively low barley "signup," in spite of the worst drought in over 50 years and at a time when it was felt barley farmers want the support of Government programs, indicates how farmers rate the two programs.

USE OF TOTAL ECONOMIC COST OF PRODUCTION WOULD BE A MORE ACCURATE METHOD OF CALCULATING DEFICIENCIES

Use of total economic cost of production would be a more accurate method of calculating deficiencies. The present formula for establishing the target price for barley uses only a comparison of the feed value of barley to the feed value of corn. No allowance is made for the premium paid on Malting barley and barley that enters the food chain.

The costs of production of Malting barley and Feed barley are similar. If cost of production were the basis for developing deficiencies, the target and loan price would be a truer reflection of the actual market response to barley supply and demand and would essentially rule out the bias that now creeps in through the use of different parameters in calculations of target price, national average price, and deficiency.

BARLEY ACREAGE RESERVE PROGRAMS SHOULD BE DEVELOPED, BASED ON POTENTIAL SUPPLY/USE RELATIONSHIP

Barley acreage reserve programs should be developed, based on potential supply/use relationship. Potential supply should be such as to maintain demand, but should not be allowed to build price depressing surpluses.

The scenario I would like to present is that when barley is kept at around 150 million bushels carryover, we have a price for barley. When barley goes to 150 million carryover or better, it is price depressing on the market, it is a price depressant.

WE WOULD ENCOURAGE PROGRAMS THAT ENHANCE FARM STORAGE OF LOAN GRAIN

We would encourage programs that enhance farm storage of loan grain. We feel the producer is in as good position to feed grain into the market at a moderate, reasonable rate as market prices. And what our thought was there, is we do not want a farmer-owned reserve as such, it should be a reserve that the Government is willing to live with and the producer is willing to live with for a safe supply of good on hand.

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[7] See p. 225 for the table, U.S. Average Cost of Production for Major Crops, 1985–87.

WE FEEL THAT THE ROLLOVER OR THE EXCHANGE OF BARLEY THAT IS IN STORAGE SHOULD BE CHANGED OVER A 2-YEAR PERIOD

Another thing that is not in my testimony but should have been in there is that we feel that the rollover or the exchange of barley that is in storage should be changed over a 2-year period, it should not be kept on storage for 5 to 6 years, as was in the past.

WE ENCOURAGE YOU TO WRITE THE 1990 FARM SECURITY ACT AS THOUGH THE GATT WILL FAIL

The following statement may not meet much favor from several sectors of the economy, but we encourage you to write the 1990 Farm Security Act as though the GATT will fail. We cannot afford to dally on our next farm bill, waiting for other countries to make up their regulations or accept our GATT proposals. We need a strong, practical program developed in a thoughtful and timely manner. If the GATT does not materialize, and by my statement I am not attempting to gaze into a crystal ball or in any way pretend to know what will happen, we can always modify our bill so it will comply.

Barley producers generally support the concept of the Food Security Act of 1985 and would like to see many provisions carried over into the 1990 bill. As mentioned earlier, we felt modifications are in order and have expressed our opinions with this in mind.

GENERAL COMMENTS ON ADDITIONAL PROVISIONS BARLEY GROWERS WOULD LIKE STUDIED

Some brief general comments on additional provisions barley growers would like studied. The growers feel that base and yield figures used in the program are generally out of date. Tend to penalize the progressive producer. These figures should be established on current supply and demand and should reflect the grower's true ability to produce.

Barley should be included in the food assistance programs. Barley has been studied and it is known that it is a good food and it does tend to have characteristics that tend to limit and even reduce cholesterol deposit buildup.

The growers do not essentially favor many of the flexible base programs that are being discussed, but feel a minor 5 to 10 percent allowance in base exchange would assist in farming plans.

Growers support continued programs of the Foreign Ag Service in export promotion.

Producers would support removal of the so-called "Malting Barley Exemption," which allows the Secretary to declare producers eligible for feed grain loans, and so on.

Again, I would like to thank you for this opportunity to express the opinions of the Barley Producers and, just as an added comment, the Barley Producers did not like what happened a few days ago with what was announced as far as the set-aside on wheat.

That concludes my remarks.

[The prepared statement and attached table, U.S. Average Cost of Production for Major Crops, 1985–87, of Mr. Arnold follow:]

STATEMENT

OF

LOUIS D. ARNOLD
PRESIDENT
NATIONAL BARLEY GROWERS ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION
AND STABILIZATION OF PRICES
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

REGARDING

INCLUSION OF BARLEY IN FARM SECURITY ACT OF 1990

SEPTEMBER 21, 1989

Mr. Chairman, Committee members. I am Louis Arnold of Esmond, North Dakota. (I appear today as a representative of the United States barley producers.) I am president of the National Barley Growers Association, headquarters located at 415 - Second Street Northeast, Suite 300, Washington, D.C. 20002, and a member of the North Dakota Barley Council, located at 415 - 38th Street Southwest, Fargo, North Dakota.

It is a pleasure to be able to testify on the 1990 Food Security Act (FSA) as a barley producer and representative of other producers. Barley producers generally feel there have been several areas in past Farm Bills that tend to relegate barley to a secondary position. Thus the opportunity to discuss these discrepancies is appreciated as is the opportunity to convince the framers of the 1990 act to modify the several inconsistencies, as I shall point out.

Barley producers want barley to be specifically considered in the 1990 FSA and request removal of the discretionary powers of the Secretary to include or exclude barley from the program. It is also their contention that each feed grain should stand on its own merits and be evaluated accordingly. In fact, because of barley's unique dual qualities for use as a food (about 30-35% of the United States crop annually is used in the production of food products) and for feed we suggest development of a separate section within the FSA to better evaluate the various marketing avenues of use that barley can enter. There is precedence for development of special sections in that the 1985 Food Security Act includes a section for "corn silage".

Some reasons why barley should be given a separate section relate to this division of barley into feed, malting and food uses. A look at the price relationship between malting barley and feed barley is a good indication of the complexity of the crop's utility, a factor that only intensifies the discrepancies between barley and other feed grains when comparisons are made.

I would like to quote Tuesday's market prices for midwestern barley as an example of problems that arise when attempting to put barley into the mold of other feed grains. Minneapolis - six rowed malting barley top for Tuesday, September 19, was $2.80 to 3.70 per bushel. The same day, feed barley was quoted at Duluth at $2.05 per bushel. These two markets are the customary terminal markets for these two types of barley from the midwest. The $0.75 to $1.65 spread between the two types of barley can cause extreme confusion in attempts to write a single program fair to producers of each barley type. This is especially confusing when attempting to evaluate barley based on its relation to other feed grains.

A separate section would allow consideration of barley on its own merits including allowances for the variability in the malting market and the feed market. It would allow for development of a more stable relationships between supply and demand as the specific factors that affect the amount of barley on the market could be more closely evaluated.

A separate section for barley would allow for the establishment of more equitable loan and target price levels. Currently, these levels are established on the basis of barley's feed value in comparison to corn. The generally accepted practice established by USDA is to set barley at 80 to 85% the energy value of corn. Using only energy values in place of evaluating the entire range of feed value of barley places barley at a disadvantage, depriving the barley producer of the true value of his product. The true feed value of barley equals or is better than corn, when fed to many classes of livestock.

USDA, however, does not recognize this quality potential in development of its formulas. Barley is considerably higher in protein and certain important amino acids (lysine) than corn as indicated by the " US Canadian Tables of Feed Composition."

Barley producers would like the methods of calculating loan price and target price to be based on the cost of production. They are of the opinion that basing loan and target price on cost of production would be the most equitable method of evaluating price deficiencies and other support programs. A suggestion as to how this could be accomplished would have loan price equal the variable cash cost of production including a 10% allowance for unpaid family labor and management. Target prices would be based on the total economic cost of production, again adding a 10% allowance. This would do two important things, one - it would allow barley to stand on its own merits, two - it would tend to equalize the disparagency that now creeps into the formulas used in calculating deficiency payments.

A chart is appended that compares cost of production, loan rates and target prices for the four feed grains and wheat. I regret that the most current cost figures are for the 1987 crop and while the figures do not include 1988 and 1989, they should still be relative to current costs. A check of the chart indicates 1987 variable cash cost of production for barley at $1.03. Adding the 10% allowance for unpaid family labor and management brings this figure up to $1.13. The 1987 loan rate as calculated under current formulas is only 91% of the 1987 total cash cost of production. Using the same formula for corn, we find the cost of production +10% is only 57% of the 1987 corn loan. The 1987 corn loan rate is 131% of the total cash cost of production.

Basing target prices on the total economic cost of production and using the 1987 figures, total economic cost of production of barley is $2.58 and for corn it is $2.00. Adding 10% to each we have barley at $2.84 and corn at $2.20. The 1987 target price for barley was $2.60 or 92% total economic cost. The 1987 target price for corn was $3.03 or 138% of the total economic cost for corn.

The current law reads that target prices for barley, sorghum and oats are to be set at "fair and reasonable levels" in comparison to corn. It is easy to visualize from the above calculations, that this is not necessarily the case. A good indicator in evaluating the equality of the programs is to compare grower participation in the farm program. Preliminary 1989 sign up figures indicate farmer participation in the corn program, signed up over 80% of the eligible base acres while barley producers only signed up 67% of their base.

This comparatively low barley "sign-up", in spite of the worst drought in over 50 years and at a time when it was felt barley farmers would want the support of government programs indicates how farmers rate the two programs.

Use of total economic cost of production would be a more accurate method of calculating deficiencies. The present formula for establishing the target price for barley uses only a comparison of the feed value of barley to the feed value of corn. No allowance is made for the premium paid on malting barley and barley that enters the food chain.

Presently the national average barley price is used to establish levels of deficiency payment. Malting and food barley prices are included in establishing this national average price. The price of barley that is under CCC loan or forfeited and often represents a large portion of the barley marketed is not considered in establishing cash prices received. These formulas result in calculations that generally indicate a higher than average figure. The reason here being the target price is calculated only on feed value relative to corn where as the other part of the equation uses the higher malting and food barley prices as well as cash feed barley sales.

The costs of production of malting barley and feed barley are similar. If cost of production were the basis for developing deficiencies the target and loan prices would be a truer reflection of the actual market response to barley supply and demand and would essentially rule out the bias that now creeps in through the use of different parameters in calculations of target price, national average price and deficiency.

Barley Acreage Reserve Programs should be developed based on potential supply/use relationship. Potential supply should be such as to maintain demand, but should not be allowed to build price depressing surpluses. A viable barley industry makes an aggressive export market a necessary function of the over all marketing picture. A stable 500 to 650 million bushel supply of barley is developing in the United States. Agronomic advances will perhaps keep the supply nearer the upper end of the range. At the same time, without an aggressive export marketing program, domestic use will not hold supplies at manageable levels. Experience has shown that as carryover supplies move above 150 million bushels they become price depressing. An ending Stocks:Use ratio may be an equitable method of evaluation. A comparison of specific level of carryover supplies to the ratio using 1989-90 USDA projections is as follows:

Carryover Stocks - 183 million bushels (June 1, 1990)
Total Use - 430 million bushels (1989-90 Market year)
Stocks:Use Ratio - 43%

The same scenario with 150 million bushel carryover would have a Stocks:Use ratio of 35%, still a high carryover.

Barley producers are not interested in paid land diversion. They consider that these funds, if available, can be better used to strengthen Export Enhancement Programs and barley TEA projects. A viable, strong export program is needed. At present the EEP has been a helpful and useful tool in moving barley into export and to win back markets taken over by EC through our neglect. Barley producers support strong EEP and TEA programs. EEP will develop an expansion of export markets for feed barleys and malt adding to our domestic feed market allowing the movement of grain that does not meet industry quality specs into marketable position.

We would encourage programs that enhance farm storage of loan grain. We feel the producer is in a good position to feed grain into the market at a moderate, reasonable rate as market prices dictate.

The following statement may not meet much favor from several sectors of the economy but we encourage you to write the 1990 FSA as though the GATT will fail. We can not afford to dally on our next Farm Bill waiting for other countries to make up their regulations or accept our GATT proposals. We need a strong, practical program developed in a thoughtful and timely manner. If the GATT does materialize, and by my statement I am not attempting to gaze into a crystal ball or in any way pretend to know what will happen, we can always modify our bill so it will comply.

Barley producers generally support the concept of the 1985 FSA and would like to see many provisions carried over into the 1990 bill. As mentioned earlier we felt modifications are in order and have expressed our opinions with this in mind.

Some brief general comments on additional provisions barley growers would like studied. The growers feel that base and yield figures used in the program are generally out of date. Tend to penalize the progressive producer. These figures should be established on current supply and demand and should reflect the grower's true ability to produce.

Growers want to see the government use its loan and grant programs aggressively to support a vigorous export program.

Barley should be included in "Food Assistance" programs. Nutrition studies have shown barley to be a good source of Beta glucans for human food. Thus having characteristics that tend to limit and even reduce cholesterol deposit build up.

The growers do not essentially favor many of the flexible base programs that are being discussed but feel a minor (5-10%) allowance in base exchange would assist in farming plans. An example - a field with either an acre or so larger or smaller than base allows could be finished with the same crop. This would be a small tolerance and would aide the farmer in maintaining his base and still do a good job.

Growers support continued programs of the Foreign Ag Service in export promotion.

Producers would support removal of the socalled "Malting Barley Exemption" (2)(C) which allows the Secretary to declare producers eligible for feed grain loans etc., even though overseeded if they seed acceptable malting barley varieties and the exemption has been declared in force. This regulation has not been invoked for several years and malting barley production has been adequate to supply domestic demand.

"Cargo preference" expansion is opposed.

Again, thank you for this opportunity to express the opinions of barley producers on factors that should be considered when writing the 1990 Farm Security Act.

U.S. AVERAGE COST OF PRODUCTION FOR MAJOR CROPS, 1985-1987

	CORN			SORGHUM			BARLEY			OATS			WHEAT		
	'85	'86	'87	'85	'86	'87	'85	'86	'87	'85	'86	'87	'85	'86	'87
CASH EXPENSE															
Variable															
($/planted acre)	135.32	120.89	119.14	62.61	55.57	54.76	57.89	50.31	48.37	41.85	37.86	39.74	51.10	45.94	44.56
Fixed ($/planted acre)	63.77	49.83	57.40	26.89	25.25	26.37	28.05	25.05	28.81	29.12	29.44	35.00	25.23	21.73	23.88
Total ($/planted acre)	119.09	170.72	176.54	89.50	81.00	81.11	85.94	75.36	77.18	70.97	67.30	74.74	76.33	67.67	68.44
TOTAL ECONOMIC COST	281.32	240.56	254.11	147.98	133.65	135.23	128.90	119.33	121.08	112.04	119.49	127.36	125.26	112.72	115.14
YIELD															
(bu/planted acre)	121.96	126.25	126.86	65.89	66.91	68.79	44.96	47.21	46.96	45.14	57.64	55.21	31.41	28.74	31.64
COST PER BUSHEL															
Variable Cash	1.11	0.96	0.94	0.95	0.83	0.80	1.29	1.07	1.03	0.93	0.66	0.72	1.63	1.60	1.41
Fixed Cash	0.52	0.39	0.45	0.41	0.38	0.38	0.62	0.53	0.61	0.65	0.51	0.63	0.80	0.76	0.75
Total Cash	1.63	1.35	1.39	1.36	1.21	1.18	1.91	1.60	1.64	1.57	1.17	1.35	2.43	2.35	2.16
Total Economic Cost	2.31	1.91	2.00	2.25	2.00	1.97	2.87	2.53	2.58	2.48	2.07	2.31	3.99	3.92	3.64
TARGET PRICE	3.03	3.03	3.03	2.88	2.88	2.88	2.60	2.60	2.60	1.60	1.60	1.60	4.38	4.38	4.38
(88)			(2.93)			(2.78)			(2.51)			(1.55)			(4.23)
(89)			(2.84)			(2.70)			(2.43)			(1.50)			(4.10)
LOAN RATE	2.55	1.92	1.82	2.42	1.82	1.74	2.08	1.56	1.49	1.31	0.99	0.94	3.30	2.40	2.28
(88)			(1.77)			(1.68)			(1.44)			(0.90)			(2.21)
(89)			(1.65)			(1.57)			(1.34)			(0.85)			(2.06)

Senator **Conrad**. Thank you very much, Louis. I appreciate your presentation here today and the testimony. It is excellent and it will be very useful as we work toward producing a 1990 farm bill.

Let me ask you the same question that I have asked others: If we have the same reduction in target price applied to barley as we are seeing in the other commodities that we have the numbers for, in terms of the administration's proposal, we would be at a target price in 1994 of $2.04 for barley. That would be equivalent to about $1.60 today. Can you tell me what the effect on our producers would be of that kind of dramatic reduction?

Mr. **Arnold**. Yes, I do not think you would see barley raised, and the reason I say that, our contention is that if we go with the target price system and if it is not realigned to reflect all the true costs that the producer has in each commodity, you are going to always have the shift to one commodity or the other, and if that would happen, if it would drop to, say, $2.04 or $1.60, we would not have people in North Dakota raising barley any more because they could not afford to. They would go to row crops or specialty crops, and think what that would do to those commodities, then.

Thank you.

Senator **Conrad**. Thank you. I appreciate that testimony and I think it will be very useful for the committee as well.

Next we will hear from John Bollingberg, oat producer from Bremen, North Dakota and a member of the board of directors of the American Oat Association (AOA).

Welcome. It is good to have you here, John.

STATEMENT OF JOHN BOLLINGBERG, OAT PRODUCER, MEMBER OF THE BOARD OF DIRECTORS, AMERICAN OAT ASSOCIATION, BREMEN, ND

Mr. **Bollingberg**. Thank you, Mr. Chairman and members of the committee. I want to thank you for this opportunity to appear before you today to discuss the American Oat Association's recommendations for the 1990 farm bill.

INTRODUCTION

My remarks are condensed from the American Oat Association's extended testimony that I have submitted for the hearing record.

I am John Bollingberg, an oat producer from Bremen, North Dakota, and I am a member of the board of directors of the American Oat Association. I produce oats, along with other small grains, edible beans, and livestock on my farm.

The American Oat Association was formed last November to represent the interests of the entire domestic oats industry—from producers to processors. We represent oat farmers and seed companies from all the major oat-producing States, including North Dakota, South Dakota, Iowa, Minnesota, Wisconsin, and Nebraska. We also represent several major oat millers and processors, such as ConAgra, General Mills and Quaker Oats.

THANK YOU FOR YOUR DEDICATED EFFORT AND PLAIN HARD WORK

First, in this time when bashing Congress seems to be so popular, I would like to thank you for your dedicated effort and plain hard work serving me, just one of your vast constituency.

RECOGNITION OF THE 1985 FARM BILL

Then I would recognize what I, as a producer, like about the 1985 farm bill. The effort to recognize signals from the marketplace, to bring U.S. production into a competitive position in world markets, and to try to reduce budgetary costs are part of the direction I appreciate. Along with the goal of recognizing signals from the marketplace comes the need to adjust to those signals.

APPARENT NEED TO FINE-TUNE THE OAT PORTION OF THE FARM BILL

With the numbers available to us today, we have a very apparent need to fine-tune the oat portion of the farm bill. The impact of the explosion of demand for oat bran is directly reflected in the dramatic increase of imports. In the past marketing year the United States imported 60 million bushels, over 25 percent of the domestic production. USDA is projecting imports of at least 50 million this marketing year.

The increasingly health conscious American consumers offers assurance that this demand is sound, so the facts of the marketplace are needs beyond domestic production. As I, and many producers like me, make seeding decisions, the guarantees the farm program offers is certainly part of that decision.

The fact is that, with the present implementation of the farm program, the guarantees are better with my alternatives. We should keep in mind the many benefits of increasing oat production. Increasing seeding of oats to satisfy domestic needs reduces the seeding of other crops, taking pressure off both open markets and the Federal budget. The benefits of that oat production will be in rural America, where the multiplier makes the income of value far beyond the agricultural sector. In addition, any reduction of imports improved our balance of trade.

AOA SEES THREE PRIMARY REASONS FOR THE OAT SHORTAGE

The American Oat Association sees three primary reasons for the oat shortage:

First, the oat target price is too low relative to other crops, and that is the key relationship to other crops.

Second, an inflexible base acreage program that causes farmers to grow more highly supported commodities year after year.

Third, a CRP which has tended to pull a disproportionate amount of oat acreage. This, by the way, dramatically points out the lack of value in support dollars to oat acres that goes ultimately to the producer.

These programs have prevented the American farmer from responding to an oats market that is telling them to grow more oats. This is not a new problem to you, for at least the last 3 years this Congress has attempted to offer some additional assistance to oat producers through the lifting of cross compliance on oats, establishing a maximum 5 percent oats ARP and, most importantly, providing additional oats planting flexibility in last year's drought assistance package.

COMMEND THIS COMMITTEE FOR RECOMMENDING TO THE SECRETARY OF AGRICULTURE ZERO ACREAGE REDUCTION ON OATS FOR 1990

We particularly want to commend this committee for recommending to the Secretary of Agriculture zero acreage reduction on oats for 1990. This is especially important, in light of the Secretary of Agriculture's recent decision to allow wheat producers to seed 105 percent of their wheat base.

THE AMERICAN OAT ASSOCIATION RECOMMENDS TWO POLICY CHANGES

The comprehensive nature of the 1990 farm bill will allow many things to be done responsibly to respond to market signals. In developing the commodity provisions of the 1990 farm bill, the American Oat Association recommends two policy changes in the order of importance:

First, realign target prices to remove the incentives some crops enjoy over others. Oats is a prime example of target price discrimination. One way to achieve this would be to eliminate the current requirements that oats, barley and sorghum target prices be set in relationship to corn target price. The current domestic oat supplies definitely point out the uniqueness of oats in the need to address oats separately. Another way could be to have target prices reflect the cash costs of production of each crop. This would develop more equality between commodities.

The second recommended change is to increase planting flexibility to allow farmers to respond to market conditions. The American Oat Association strongly supports the concept of flexible planting. However, for this to actually result in increased oat acres, the target price issue remains paramount. The American Oat Association believes that the triple based proposal and the flexible oats planting provision in effect this year would be effective. Base substitution on normal crop acres will be effective only if the target price system is revised to provide a level playing field for all program commodities.

These two policy changes would help the United States return to self-sufficiency in oats. Farmers want to grow oats but do not need farm program concerns to discourage them from doing it. Oat millers and processors want the high quality of U.S. oats to meet rising consumer demand. For over 50 years, private industry has played a leading role in funding oat research in this country. This has resulted in oat production that is unequaled in the world, in terms of quality.

OUR FARM PROGRAMS MUST BE DESIGNED AND IMPLEMENTED TO ALLOW FARMERS THE LATITUDE TO RESPOND TO THE MARKET

Lastly, the American consumer is demanding more oat-based products, as they come to realize their nutritional and health benefits. Our farm programs must be designed and implemented to allow farmers the latitude to respond to the market.

Thank you again, Mr. Chairman and members of the committee, for this opportunity to discuss the oat program. If you have any questions, I will do my best to answer or find the answer for you.

[The prepared statement, attached tables and charts, and letter of October 27, 1989, in response to Senator Baucus, of Mr. Bollingberg follow:]

American Oat Association

Producing Oats and Oat Products for a Healthy America

STATEMENT OF JOHN BOLLINGBERG
AMERICAN OAT ASSOCIATION

BEFORE THE
COMMITTEE ON AGRICULTURE
U.S. SENATE
SEPTEMBER 21, 1989

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you this afternoon to discuss the American Oat Association's recommendations for the 1990 farm bill.

I am John Bollingberg, an oat producer from Bremen, North Dakota and a member of the Board of Directors of the American Oat Association (AOA).

The AOA was formed last November to represent the interests of the entire domestic oats industry -- from producers to processors. We represent oat farmers and seed companies from all the major oat producing states, including North and South Dakota, Iowa, Minnesota, Wisconsin and Nebraska. We also represent several major oat millers and processors, such as Quaker Oats, General Mills and ConAgra.

Over the past year, there has been a tremendous explosion of interest in oats based on research findings that oat bran, when combined with a low-fat, low-cholesterol diet, can actually lower cholesterol levels. As a result of this research, health-conscious American consumers have dramatically boosted their demand for oat-based products. The amount of oats used for food has risen steadily during the early 1980s and turned sharply upward in the two years. We expect this demand to continue to strengthen in the future as more and more consumers become aware of the link between diet and health and the nutritional benefits of eating oats.

Although consumer demand for oats is at an all-time high, U.S. production of oats has remained at a level insufficient to meet domestic demand. This production shortfall has forced the United States into large-scale imports of foreign oats to augment domestic supplies, making oats the only major grain imported in any quantity into the United States today.

The United States became a net importer of oats in 1982 and oat imports have risen steadily since that time. Oat imports accounted for less than 1 percent of production in 1982, but rose to approximately 28 percent of production last year when the United States imported 60 million bushels. While imports of this magnitude were due in some part to last summer's drought, the greater part of this shortfall was a direct result of years of production declines. Indeed, even before the drought, U.S. oat production in 1988 was expected to hit a 100-year low.

U.S. oat production is expected to rebound slightly this year due to an important flexible planting provision for 1989 crop oats, but imports are still expected to reach 40 million bushels.

The continued domestic shortfall of oats is of major concern to the AOA. We are extremely concerned about the growing reliance on foreign sources of a basic grain such as oats. We find that many of these imported oats are inferior to domestically produced oats, especially in terms of protein. And we strongly believe that American, rather than foreign, producers should be the major beneficiaries of the growing consumer demand for oats.

Why the shortage of oats? The answer lies largely with current farm programs and the way they are implemented. Although the Food Security Act of 1985 has been successful in making U.S. agriculture more competitive in world markets, in bringing supply and demand more into balance for most major commodities, and in reducing the budgetary cost of these programs, it has not benefited all commodities equally. This is especially true in the case of oats.

The problem is threefold:

1) Both the 1981 and 1985 farm acts, and the Department of Agriculture's implementation of the feed grains program authorized under those laws, set oat target prices too low relative to other competing crops to provide sufficient price protection and incentives for farmers to grow oats. In fact, the oats target price level is so low as to be non-functional and, when compared to the Federal returns on competing crops, actually provides a disincentive to grow oats. Simply put, farmers make more money -- from the market and the Government -- when they grow corn, wheat, sorghum or barley instead of oats. And even in those instances when the oats market price is extremely strong, as it was last summer, oats become noncompetitive with these more highly supported commodities when Federal payments are factored in.

2) The problem of inequitable target prices is compounded under the current inflexible base acreage program that, in effect, locks farmers into growing the more highly supported commodities year after year, regardless of current market conditions. Prior to the flexible planting provisions for 1989 soybeans and oats, higher target prices for competing grains and farmers' natural desire to maintain maximum eligibility for those federal payments

prevented them from responding to strong soybean and oats prices. Very few farmers were willing to sacrifice their future years' wheat or corn base with its guaranteed high Federal payment for one year of high oat or soybean prices. Moreover, given the limited value of the oats base, some oats acreage shifted into soybeans in 1987/88, creating even more pressure on oat supplies.

In theory, farmers have a bit more flexibility with regard to oats and barley. These commodities have a "combined" base which allows producers to switch freely from barley to oats (and from oats to barley) without sacrificing acreage base. In reality, however, farmers plant barley because barley's target prices have historically been between 96 cents and $1.00 higher than those for oats.

3) The Conservation Reserve Program (CRP), designed to remove up to 45 million acres of highly erodible cropland from production by 1990, also has had a significant adverse effect on oats production. Oats, because they have a lower return per acre than other crops, have been relegated to the least productive acres of the farmstead, the same acres that are likely to be the first candidates for entry into the CRP.

The disproportionate amount of oats acreage moving into the conservation reserve is ironic in light of the many positive environmental benefits of growing oats.

Oats are an excellent soil erosion control crop. Unlike row crops that leave a significant portion of soil exposed to wind and water erosion, the dense cover provided by oats actually protects the soil. In certain crop rotations, oats also require minimum tillage (plowing) which helps prevent erosion -- the less a farmer has to plow up or disturb the soil, the less prone that soil is to erosion.

Oats' special properties also make them an excellent rotation crop. Not only does crop rotation in general help lessen the need for chemical fertilizer application by preserving soil fertility, oats require less nitrogen from the soil (or a minimum amount of fertilizer) when compared to many other crops.

Oats are also often used as a "natural herbicide" -- grown as a companion (or starter) crop to establish forage crops and to shade areas where weeds would grow.

All these properties make oats an environmentally-sound crop, yet oats production is being unintentionally and inappropriately restricted through the conservation reserve.

These three program provisions -- inequitable target price levels, an inflexible base acreage program and the CRP -- have prevented U.S. farmers from responding to the growing demand for high quality oats. Instead of production increases stimulated by strong oat prices, U.S. oats production remains flat or depressed.

But U.S. agriculture does not exist in a vacuum. As I noted at the outset, high U.S. prices have stimulated foreign production -- for example, Canadian oat acreage is up 15 percent this year over last year's level. This trend can be expected to continue in the absence of increased oat production at home.

Recognizing this, Congress has taken a number of important steps over the last few years to address the problem of insufficient production incentives for oats:

Pressure from several members of this Committee resulted in the Department of Agriculture's lifting of cross-compliance requirements for oat producers in the 1988 and 1989 feed grains programs, providing farmers in other commodity programs with additional flexibility to plant oats.

The Omnibus Budget Reconciliation Act of 1987 directed the Secretary of Agriculture to establish a reduced acreage program of no more than 5 percent for the 1988-90 crop oats to encourage additional plantings. With the barley ARP maintained at 20 percent, the 5 percent oats ARP was intended to allow the market price for oats to compete with the higher target price for barley. Unfortunately, although we did see a slight shift from barley to oats in 1988, both barley and oats acreage fell as farmers instead opted for the conservation reserve or planted soybeans. Moreover, the 5 percent oats ARP advantage was dramatically reduced in 1989 when the barley ARP was set at 10 percent.

Finally, and perhaps most importantly, the 1988 drought assistance package provided needed planting flexibility for oat producers. This oats program allows farmers to plant any portion of their farm acreage base to oats in 1989 and 1990 (except that designated to soybeans) if the feed grain acreage reduction program requirement is 12.5 percent or less of the crop acreage base. This amendment guarantees that additional oats plantings will not alter a farm's existing acreage base for future crop years and should provide wheat, corn and sorghum producers with increased flexibility to plant oats in response to anticipated strong oat prices.

These program changes, while important, were necessarily limited in their scope and effect by their piecemeal nature. However, the problem in oats cannot realistically be solved without a comprehensive examination of the interrelationships among all the competing program crops. Thus, the upcoming omnibus farm bill offers the best opportunity in years to address the severe problems facing the U.S. oats industry.

Resolving the shortfall of high-quality U.S. oats will be difficult. AOA remains concerned about the very real potential for increased instability in the oats sector as we attempt to bring domestic supply more in line with demand. The commodity programs crafted in the 1990 farm bill will determine if the

United States will once again become self-sufficient in oats, with a minimum amount of economic dislocation to domestic oat producers. To that end, the American Oat Association urges Congress in developing the commodity provisions of the 1990 farm bill to design programs that will:

- Provide adequate production incentives to and income protection for American oat farmers;

- Expand U.S. oat production to meet increasing demand for oat products by health-conscious American consumers; and

- Provide a stable, reliable source of high-quality U.S. oats.

To achieve these objectives, the AOA recommends the following two policy recommendations, in order of priority.

Realign target prices to remove disincentives to oats production and to provide adequate income protection to oat producers.

Such a realignment could include raising the oats target price to at least cover cash expenses or perhaps even full economic costs. It is only when target price coverage has been extended to the full economic cost of producing oats that oats will move on par with most other supported commodities.

AOA also recommends eliminating the Secretary of Agriculture's discretionary authority to set barley, oats and sorghum target prices at a rate he deems is "fair and reasonable" in relation to the corn target price, which is specified in legislation.

Since the oats target price was first mandated by Congress in 1982, the Department has consistently set the oats target price too low, particularly relative to barley, with which oats shares a base. The precise method USDA uses to determine the various feed grain targets has always been obscure. What is clear, however, is that the USDA formula does not use the same criteria in determining targets for each feed grain, resulting in significant imbalances among these competing commodities.

Moreover, AOA questions the wisdom of requiring target prices for the competing feed grains to be set in relation to the corn target price. This requirement biases the entire feed grain program in favor of corn and is a major factor in today's oats shortage. The feed grain target price system should be reviewed and revised to eliminate the current inherent bias toward corn at the expense of not only oats, but barley as well.

Increase planting flexibility to allow farmers to respond to market conditions.

Programs must be revised to remove the rigidity that prevents farmers from responding to current market conditions. AOA strongly supports the concept of flexible planting. Under the current system of inequitable target prices, however, we can support only those proposals that are truly market-oriented -- those programs that allow farmers to plant solely for the market, without the benefit of target price protection. The triple-base proposal falls into this category as does the flexible oats planting provision in effect this year.

AOA believes, however, that simple base substitution or reversion back to the Normal Crop Acreage (NCA) program would **not** encourage farmers to plant for the market, at least not under the current target price system. Indeed, as our experience with the combined barley/oats base has shown, farmers naturally would tend to plant the more highly supported commodities. These programs do provide farmers with flexibility, but unfortunately it is only a flexibility to "farm the farm programs." And with continued non-functional target price protection for oats, oats acreage would dramatically decline under these latter two proposals.

Base substitution or the NCA become viable market-oriented flexible planting programs only if the current target price system is revised to provide a level playing field for all program commodities. It is then, and only then, that AOA could support either of these two options.

A more equitable target price system, coupled with greater flexibility to respond to the market, will help the United States return to self-sufficiency in oats. Farmers want to grow oats, but they don't want to be penalized for doing so.

Oat millers and processors want the high-quality of U.S. oats to meet rising consumer demand. For over 50 years private industry has funded oats research in this country to develop an oats crop that is unequaled anywhere in the world in terms of quality.

And lastly, American consumers are demanding more oat-based products as they come to realize the nutritional and health benefits of eating oats. Farm programs must be revised to allow farmers the freedom to meet this demand.

Thank you again, Mr. Chairman and Members of the Committee, for this opportunity to discuss the oats program.

Oat production, price and import data, along with a comparison of subsidy levels among the competing grains, is attached.

WHEAT & FEED GRAIN PROGRAMS - 1989

	TARGET	LOAN	MAXIMUM DEFICIENCY PER BUSHEL	MAXIMUM DEFICIENCY PER ACRE
WHEAT	$4.10	$2.06	$2.04	$76.58
CORN	$2.84	$1.65	$1.19	$129.59
OATS	$1.50	$0.85	$0.65	$37.00
BARLEY	$2.43	$1.34	$1.09	$56.70
SORGHUM	$2.70	$1.57	$1.13	$69.95
SOYBEANS	$0.00	$4.53	$0.00	$0.00

*BASED ON 5 YEAR AVERAGE NATIONAL YIELDS

- Targets and loans for oats have been historically low relative to corn, sorghum, barley, and wheat
- Potential deficiency payments per acre for oats are 65% of barley, 48% of wheat, and 29% of corn based on 5 year national average yields
- The disparities in potential deficiency payments clearly indicate the disincentives that farm programs provide for oats production in the U.S.

CHANGE IN OATS TARGET PRICES REQUIRED TO EQUAL RETURNS FROM OTHER CROPS

1989

CORN	+ $1.62
BARLEY	+ $0.43
WHEAT	+ $0.61
SOYBEANS	+ $0.91

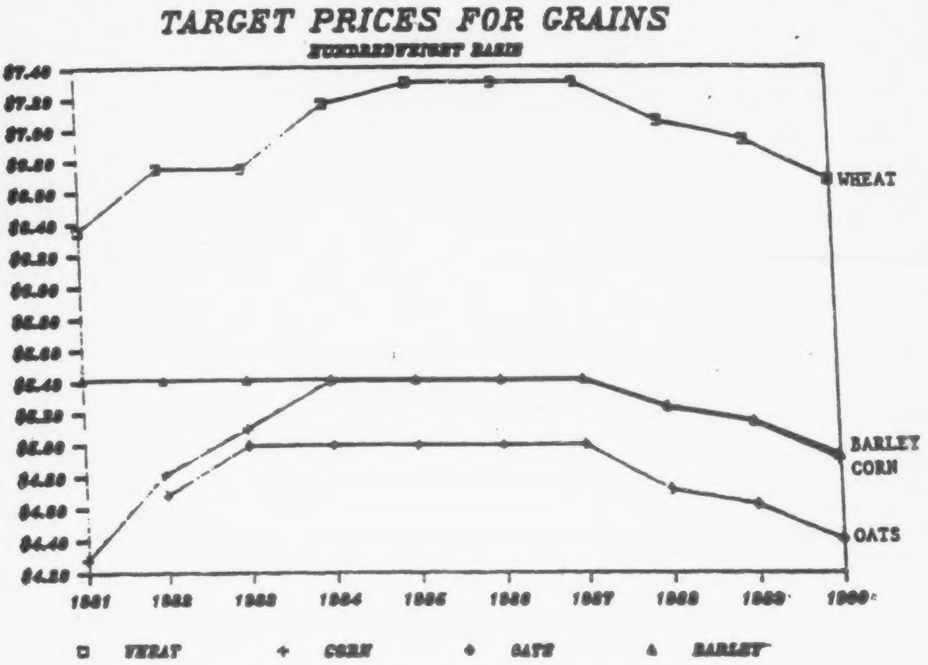
ASSUMPTIONS -

- Upper midwest (Minnesota, N. Dakota, S. Dakota, & Iowa)
- Five year average yields
- Returns over variable costs of production
- Participation in feed grain and wheat programs

CONCLUSIONS -

- For program returns for oats to equate to those for barley and wheat, oats target prices would need to be increased $0.43 and $0.61, respectively
- Competitive returns to corn would require a $1.62 increase in oats target prices
- Current loan prices for soybeans indicate a $0.91 increase to compete

July 7, 1989



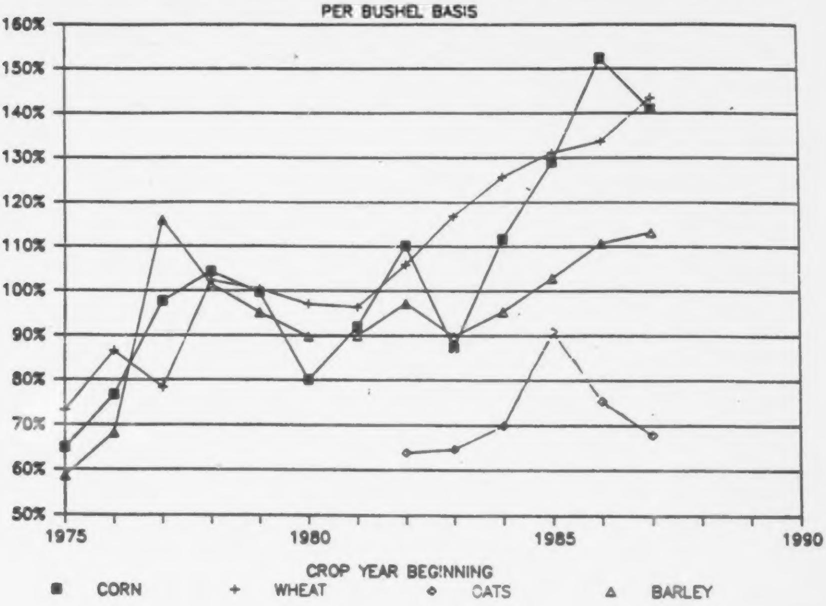
TARGET PRICES FOR GRAINS

HUNDREDWEIGHT BASIS

Constant weight removes the effect of varying bushel weights for the various grains.

Disparity of oats target relative to corn and barley is readily apparent on a hundredweight basis. The level for the wheat target is 46% higher than for oats.

TARGET PRICES AS A % OF ECONOMIC COST

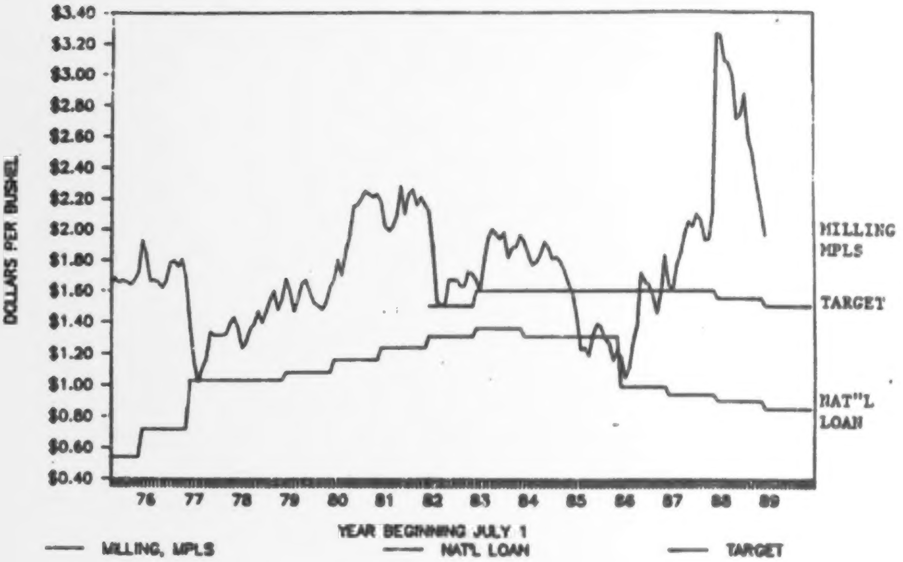


Target prices per bushel as a percent of total cost of production (including land and labor) per acre have been established at unreasonable levels in relation to barley and especially corn and wheat.

Production costs were derived from USDA's Economic Indicators of the Farm Sector--Cost of Production.

Yields were derived from USDA's final crop production report released in January 1988.

OATS – TARGET, LOAN & CASH

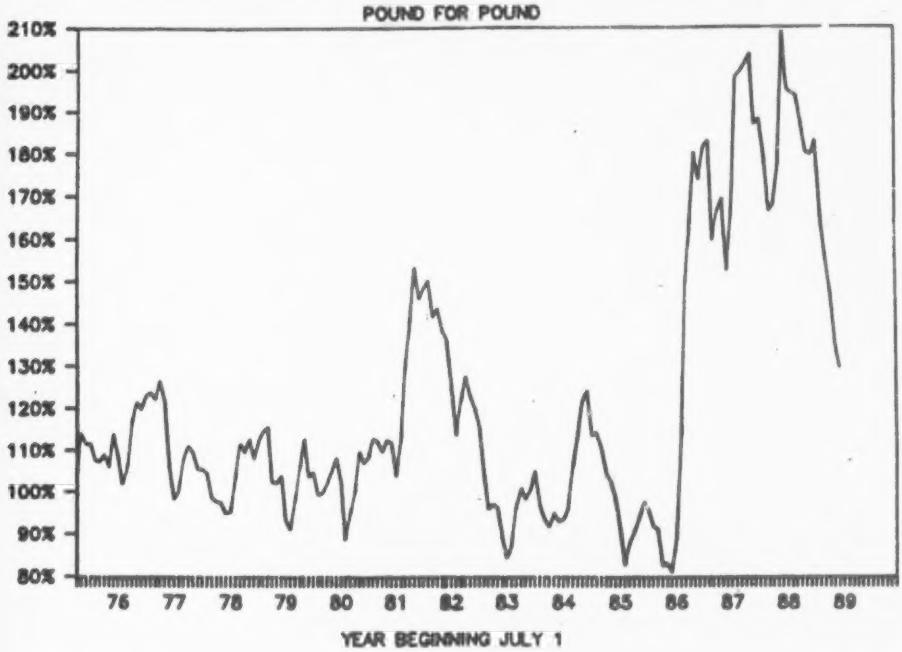


Cash prices for milling oats, Minneapolis, have seldom fallen below oats loan levels.

Since oats target prices were established in 1982, milling oats have generally maintained price levels higher than target (expect 1985/86 crop year when all grains were depressed).

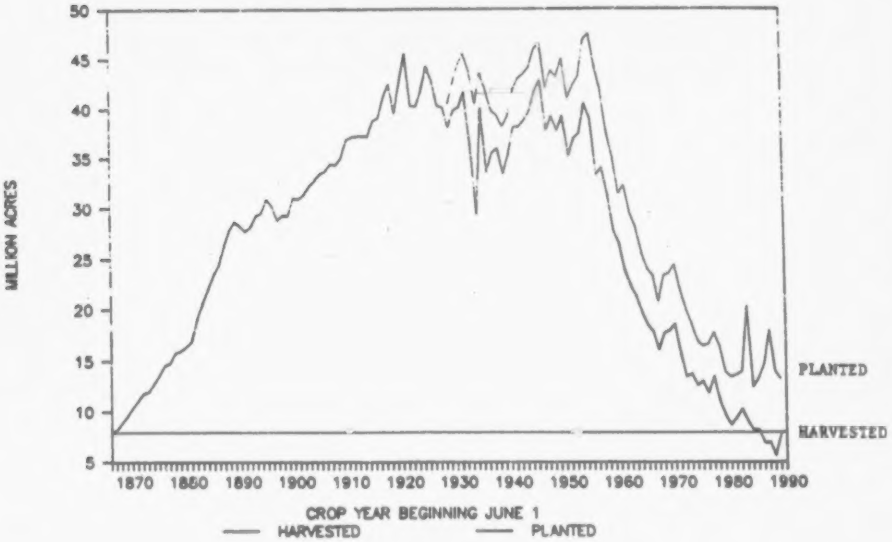
Even with high oats prices in the 1988/89 crop year, producers intend to plant 5% fewer oats acres in 1989 compared to a year earlier, according to the March 1 USDA report.

OATS – PRICE RELATIVE TO CORN



Despite recent declines, oats prices in the past year reached values double that of corn on a comparable weight basis, an unprecendented high level.

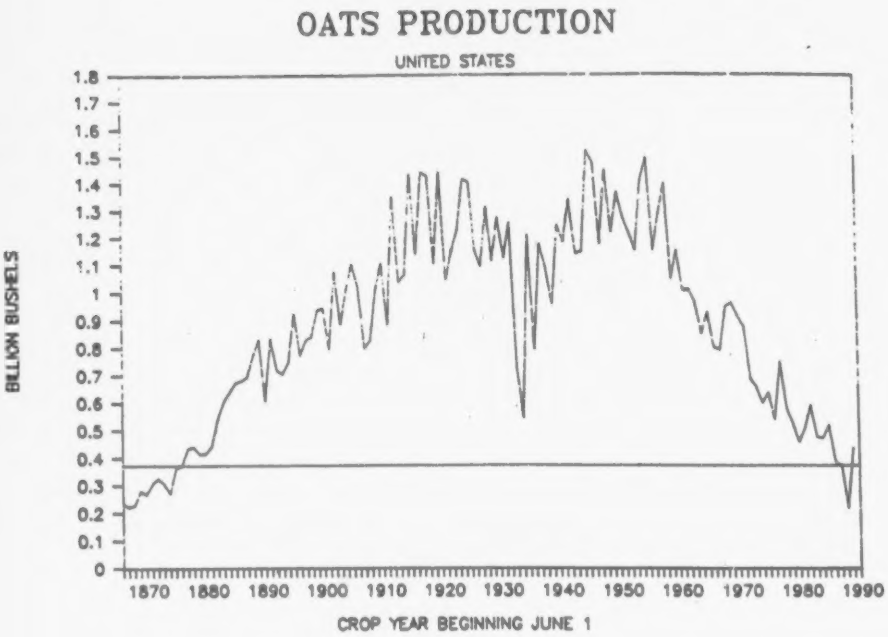
OATS – ACREAGE, UNITED STATES



Record low oats acreage harvested for grain in 1986, 1987, and 1988

Disparity of planted acreage to acreage harvested for grain in recent years relates to oats planted as cover crops on ARP, PLD, and Conservation Reserve acreage.

The unprecedented high oats prices in 1988/89 relative to other grains are not encouraging additional oats acreage with acreage intentions on March 1 down 5% from a year ago.

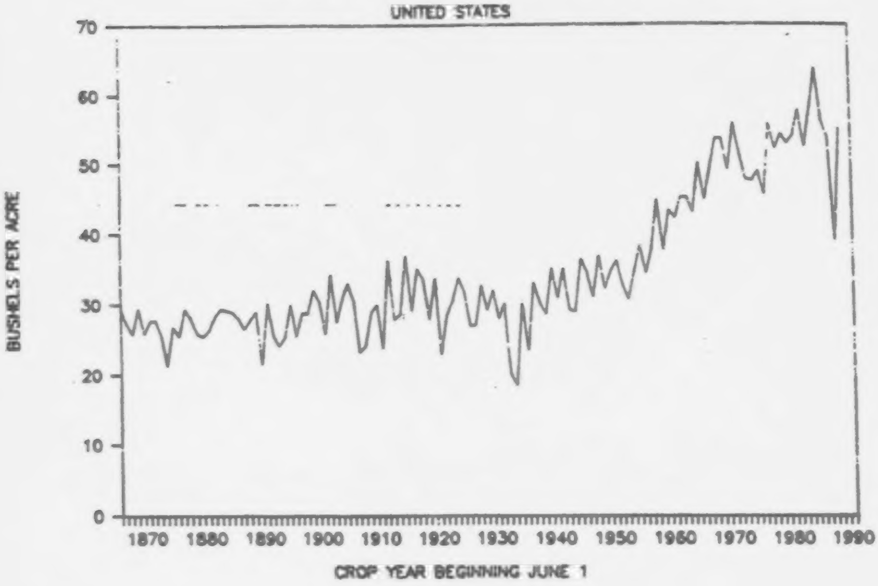


Oats production in the United States in 1988 was the smallest in recorded history.

Even in a non-drought year, 1987 oats production was the smallest since 1876.

Oats production in 1987 was down 75% from the peak in 1945 despite expanding demand for oats as a food grain.

OATS – YIELD PER ACRE



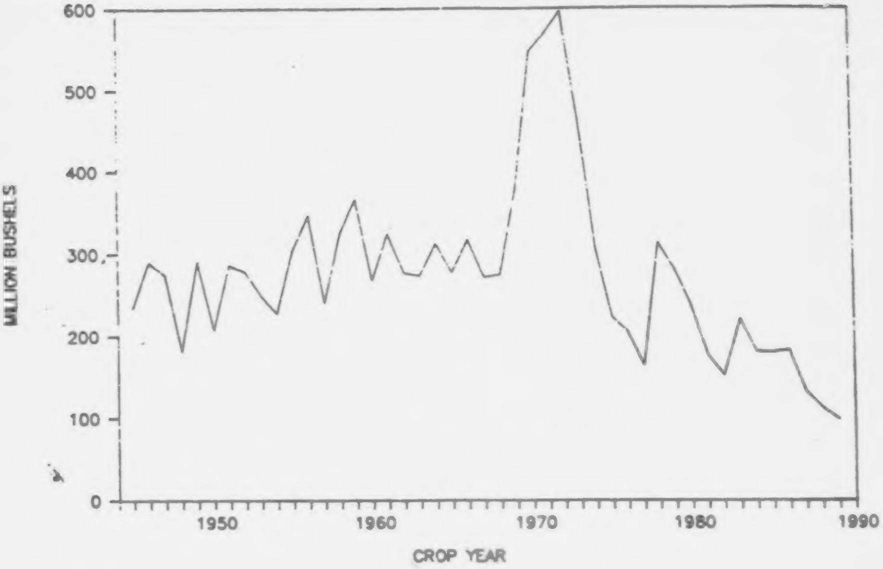
Oat yields have been on the uptrend since the early 1950's. Private funding for varietal research was started in the 1940's.

Private industry funds research at 15 public institutions in the U.S. in an effort to improve productivity per acre and to increase protein levels in oats.

A number of new varieties have been released as a result of this funding.

Ogle–A variety developed at the University of Illinois with private funding is now the most productive and most widely grown variety today.

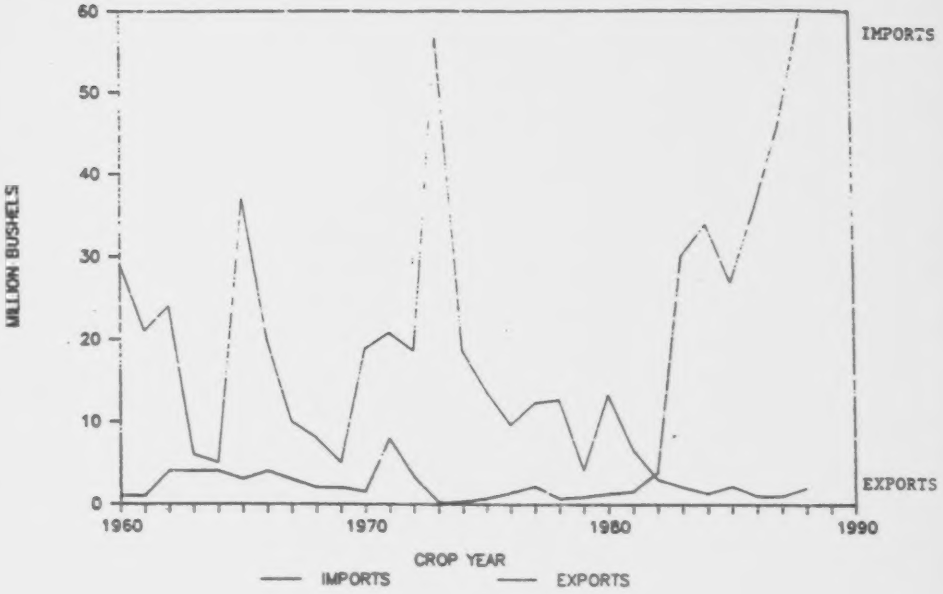
OATS - CARRYOVER STOCKS



Oats stocks on June 1, 1989 are estimated to be 98 million bushels, the smallest in recent history.

The low stocks place increased emphasis on the need for a quality oats crop in 1989.

OATS - FOREIGN TRADE, UNITED STATES



U.S. exports have dropped to insignificant levels compared to 20-30 million bushels annually in the 1960's and 1970's.

U.S. imports continue to grow, peaking at 60 million bushels in the 1988/89 crop year. Imports are forecast at 40 million bushels this year, according to USDA.

OATS - SUPPLY/DISAPPEARANCE, UNITED STATES JULY 6, 1989

	79/80	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89
							MILLION BUSHELS			
PLANTED ACRES	14.0	13.4	13.6	14.0	20.3	12.4	13.3	14.7	18.0	13.9
HARVEST ACRES	9.7	8.7	9.4	10.3	9.1	8.2	8.2	6.9	6.9	5.6
YIELD/ACRE	54.4	53.0	54.2	57.8	52.6	58.0	63.7	56.3	54.0	39.1
JUN 1 STOCKS	279	236	177	152	219	181	180	183	133	112
PRODUCTION	527	459	510	593	477	474	521	386	374	219
IMPORTS	1	1	2	4	30	34	27	36	46	65
SUPPLY	807	696	688	748	726	688	728	606	553	396
EXPORTS	4	13	7	3	2	1	2	2	2	2
FOOD	54	55	56	57	59	60	61	64	75	90
FEED	480	416	439	418	454	414	444	362	329	176
SEED	33	34	35	51	31	33	37	45	35	30
DISAPPEARANCE	572	518	536	529	546	508	544	473	441	298
MAY 31 STOCKS	236	177	152	219	181	180	183	133	112	98
FREE			148	209	174	174	174	123	106	96
LOAN			4	4	2	2	5	5	0	0
RESERVE			0	5	4	3	3	4	2	0
CCC			1	1	2	1	2	2	4	2
STOCKS/USE	41%	34%	28%	42%	33%	35%	34%	28%	25%	33%

PRICES, NO. 2 HEAVY OATS, MINNEAPOLIS

	F'80	F'81	F'82	F'83	F'84	F'85	F'86	F'87	F'88	F'89
JAS	$1.54	$1.79	$2.01	$1.64	$1.78	$1.80	$1.30	$1.15	$1.74	$3.14
OND	1.64	2.09	2.16	1.62	1.97	1.88	1.30	1.59	2.01	2.81
JFM	1.50	2.23	2.22	1.64	1.89	1.81	1.31	1.55	2.03	2.65
AMJ	1.60	2.21	2.16	1.70	1.92	1.66	1.19	1.69	2.44	2.18
F'YR AVG	$1.57	$2.08	$2.14	$1.65	$1.89	$1.79	$1.28	$1.50	$2.05	$2.70
TARGET				$1.50	$1.60	$1.60	$1.60	$1.60	$1.60	$1.55
LOAN	$1.08	$1.16	$1.24	$1.31	$1.36	$1.31	$1.31	$0.99	$0.94	$0.90

The John Bollingberg's
PO Box 111
Bremen, ND 58319

Oct 27,1989

Christine Sarcone, Chief Clerk
Senate Committee on Agriculture, Nutrition, & Forestry
328-A Russell Senate Office Bldg
Washington D.C. 20510-6000

Dear Ms. Sarcone,

My name is John Bollingberg. I am a producer member of the American Oat Assoc. Board of Directors writing at Senator Max Baucus' request for response to two questions regarding Senate Bill 1246 which would require the Secretary of Agriculture to take certain actions to encourage the production of oats. Senator Baucus directed that the response be sent to your attention.

The first question was: "What is your opinion of Senate 1246 aimed at promoting oat production?". The first section of the Bill provides for changing USDA direction regarding oat production in the United States. Given the dramatically increasing demand for oats products, there is a need to increase production to meet demand. The current Farm Program discourages domestic oat production. rrent farm programs discourage domestic oat production. The second section of Senate 1246 suggests potential means to correct the current supply/demand situation. The first recommendation is to adjust payment rates to encourage domestic production; the second recommendation is to develope planting flexibility for farmers without the risk of losing current bases.

I certainly appreciate the time and consideration given the subject of Senate 1246. The Bill addresses the necessary changes to bring domestic oat production in line with domestic demand and it addresses the changes in order of priority. Adjustment of payment rates is one of the first priorities in making changes which would begin to provide equity between commodities. In addressing the subject of payment to growers, I offer the following suggestion. If oats were able to be substituted for wheat and if the payment for oats were equal to the payment for wheat on the substituted acres, farmers would be encouraged to produce oats to meet the increasing domestic demand. This approach could divert much of the anticipated price depressing wheat production to oat production and, thus, satisfy the need for domestic oats and reduce U.S. oat imports.

Section 2- Items 4 and 5, regarding planting oats on CRP acres, may not be well accepted by growers as CRP acres are highly erodible with low production capacity. The focus of the American Oat Association is to achieve quality oat production on good land to provide high quality domestic oats. Oats grown on CRP acres would not generally achieve this objective for domestic oat production.

The second question asked was: "What would you suggest that Congress could do to encourage farmers to grow more oats?". That is definitely a "dollars and cents" question and target price is the focal point. Maintaining income protection at equal levels across commodity bases will foster production to meet the demand communicated by the market place.

The John Bollingberg's

PO Box 111

Bremen, ND 58319

Senate 1246 -2-

The heart of the 1985 Farm Bill was to allow flexibility to respond to signals from the marketplace. Oats, today, is not a shining example of that goal being effectively implemented. For oat production to increase, the income guaranteed by target prices must be equalized between corn, wheat, barley, and oats.

Enclosed find a copy of the testimony of the American Oat Association before the Agricultural Subcommittee on Agricultural Production and Stabilization of Prices on September 21, 1989.

Thanking you for this opportunity to comment on S1246 I am

Sincerely,

John Bollingberg

John Bollingberg, Director
American Oat Association

Senator **Conrad**. Thank you, John. I appreciate your testimony as well and the contribution you have made.

Let me ask you, once again, the same question I have asked the others. What would be the effect on our producers of an oat target price of $1.26 per bushel in 1994?

Mr. **Bollingberg**. Well, we addressed in testimony the need to increase the target price. We are not seeding oats, the way it is and, as Louis indicated, the same thing, of course, would happen to oats. There are some natural laws in the market, and that is, as water flows to the lower point, producers gravitate to where they are going to achieve the greatest return. Specialty crops would really be increased in our area.

Senator **Conrad**. Let me ask it this way: Do you think it is fair to say, if we apply the same reduction to oats that we are seeing in the other commodities for which we have the numbers, the administration projects steep reductions in target prices, $1.26 oats, is it fair to say that we would virtually eliminate oat production?

Mr. **Bollingberg**. I think that is fair to say.

Senator **Conrad**. I appreciate that, and I think it is important for the record. If we are going to establish some clear notion of where it is we need to go, we need to understand with some precision what the administration is projecting and what the result of that policy would be. The excellent testimony of this panel gives us some guidelines and some very clear ideas of where we need to be looking as we draft the 1995 farm bill.

I want to thank each of you for taking the time to participate in this hearing. It is invaluable to the committee and we deeply appreciate the effort that goes into preparing testimony like you have given today.

Let me also indicate that, because of other scheduling requirements, the next panel will resume at 2 o'clock, and Senator Pryor, the chairman of the subcommittee, will be here to conduct the rest of the hearing, and the other witnesses, I am told, have been contacted and that is agreeable to them.

So, with that, I want to thank, once again, this panel for your participation. With that, we will recess the hearing until 2 o'clock.

[Whereupon, at 12:23 p.m., the subcommittee was in recess, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

Senator **Pryor** [presiding]. The subcommittee will come to order.

Good afternoon. We are pleased today to have several of our witnesses before the Agriculture Subcommittee. We have first Dr. Charles Benbrook, the executive director of Board on Agriculture, National Research Council; Ken Cook, representative of the National Audubon Society, and vice president of the Center for Resource Economics; and we have Mr. Charles Frazier, director of the National Farmers Organization. I believe Carroll Brunthaver is not here at this time.

Dr. **Benbrook**. He may not have made it back, Senator.

Senator **Pryor**. Hopefully, he can make it, and I would like to ask this:

I have probably an amendment at about 2:35 or 2:40 on the floor, along in that period, and if our witnesses this afternoon could perhaps hold their testimony to about 5 minutes each.

Dr. **Benbrook**. I think we can do better than that, Senator.

Senator **Pryor**. Good. We are going to leave the hearing record open for your submission. We will have the whole body of your prepared statement placed in the record at the appropriate place and we very, very much appreciate your being here with us this afternoon.

Dr. Benbrook, we will call on you first.

STATEMENT OF CHARLES M. BENBROOK, EXECUTIVE DIRECTOR, BOARD ON AGRICULTURE, NATIONAL RESEARCH COUNCIL, NATIONAL ACADEMY OF SCIENCES, WASHINGTON, DC

Dr. **Benbrook**. Thank you, Mr. Chairman.

Last week, the National Academy of Sciences released a major report called "Alternative Agriculture." The last time we appeared before you, I remember tomatoes was the subject. You might remember that hearing.

Senator **Pryor**. I remember that very vividly.

Dr. **Benbrook**. So does our distinguished former committee chairman, Mr. Ray Thornton.

ALTERNATIVE AGRICULTURE REPORT

The report "Alternative Agriculture" released September 7, 1989, looks at the impacts of the commodity programs on both the economic and environmental performance of American agriculture, and reached a number of very significant findings and conclusions that the Congress should consider in crafting the commodity price support program reforms in the 1990 farm bill.

Specifically, the report concluded that the inflexibility in the current base acre provisions and cross-compliance provisions in the Food Security Act of 1985 have discouraged many farmers from adopting a number of practices that would benefit the Nation, both economically and in terms of environmental performance.

The report is very comprehensive, it is 440 pages, and really requires some in-depth study to understand the interaction of commodity policy, conservation policy, regulation, research and all the other factors that impact management decisionmaking on the farm.

You hear a lot, Senator, about the fact that American agriculture has to choose between being productive and internationally competitive, and doing a good job with the environment in producing safe food.

The most important conclusion of this report is that that choice is premature.

Senator **Pryor**. Dr. Benbrook, I hate to interrupt you. I wonder if you and your colleagues would sit back and have a nice cup of coffee for about 10 minutes. There is a vote that I did not know was in progress, in fact, we are in the last 4 or 5 minutes, so I am going to break and run. The subcommittee will be in recess and I will be back just as soon as I can get back from the Capitol.

Dr. **Benbrook**. Fine.

Senator PRYOR. Thank you.

We will stand in recess for a few minutes.

[Short recess.]

Senator PRYOR. The subcommittee will resume its deliberations.

Once again, Dr. Benbrook, I apologize for having to interrupt you in the middle of your statement.

Dr. BENBROOK. That is all right, Senator.

COMMODITY PROGRAMS ARE VERY IMPORTANT FOR HOW FARMERS CHOOSE TO MANAGE THEIR LAND

So, the commodity programs are very important for how farmers choose to manage their land, what crops they plant, and, hence, they have an important impact on the environmental performance of U.S. agriculture.

We heard a lot of discussion by the earlier witnesses about the need for greater flexibility in order to allow farmers an opportunity to expand soybean acreage and oat acreage, in particular.

ADDITIONAL REASONS TO BUILD GREATER FLEXIBILITY INTO THE COMMODITY PROGRAMS

Most of the arguments for increased flexibility to date have been based on the need to meet market demand and to enhance our competitiveness. There are, however, a number of additional reasons to build greater flexibility into the commodity programs, and the most important being the opportunity to allow farmers to manage their soils and their operations in a way which lowers their cash production costs for purchase inputs, reduces erosion, provides them some broader range of alternatives to deal with water quality problems, and with pest problems. Our report documents a number of specific examples of policy reforms that will, in fact, prove very helpful in dealing with the economic and competitiveness problems that the committee has traditionally been concerned with, as well as dealing with the environmental problems.

I will close there and perhaps we can get into some of the specifics later.

[The prepared statement and attachment of Dr. Benbrook follow:]

Balancing Agricultural Production and Resource Conservation Goals Through Commodity Program Reform: Recommendations from the NAS Report Alternative Agriculture

Invited Testimony

by

Dr. Charles M. Benbrook*

Mr. Chairman, I am delighted to have an opportunity to testify today before the Subcommittee on Agriculture Production and Stabilization, of the Senate Committee on Agriculture, Nutrition, and Forestry. The chairman of the committee that wrote our report Alternative Agriculture, Dr. John Pesek, also appreciates the invitation to testify, but was unable to return to Washington for the hearing. Pressing duties at Iowa State University, where many important initiatives are well underway in support of alternative agriculture, precluded Dr. Pesek's attendance this morning.

The report Alternative Agriculture released September 7, 1989, is a comprehensive assessment of the challenges confronting American agriculture. I attach excerpts from the report showing the committee membership and breadth of the report's scope. The report addresses a wide range of issues, including production costs, economic performance, resource conservation, animal care, food safety, research and regulatory policy, and the impacts of government farm programs and policies. Recommendations are offered in several areas. As requested in your letter of invitation, I focus this morning on findings and recommendations related to commodity price support programs.

The report's basic finding on the effects of government policy states:

> "Many federal policies discourage adoption of alternative practices and systems by economically penalizing those who adopt rotations, apply certain soil conservation systems, or attempt to reduce pesticide applications. Federal programs often tolerate and sometimes encourage unrealistically high yield goals, inefficient fertilizer and pesticide use, and unsustainable use of land and water. Many farmers in these programs manage their farms to maximize present and future program benefits, sometimes at the expense of environmental quality."

---

*Dr. Benbrook is the Executive Director of the Board on Agriculture, National Research Council.

The report notes that about 70 percent of the nation's cultivated cropland have been enrolled in commodity price support programs in recent years, and that "program rules have enormous influence on agriculture." This is surely not news to this subcommittee.

The report also states that over time these programs have, in some areas for certain crops, had unintended adverse impacts on the environmental--and economic--performance of farming systems. Until important reforms in the 1985 farm bill, the commodity programs generally encouraged and often handsomely awarded:

* The planting of highly erodible croplands ill-suited to cultivation.

* The installation of often costly irrigation systems that have locked many farmers into high cost production systems which sometimes result in serious adverse environmental impacts on water quality.

* Excessive application rates for certain plant nutrients--particularly nitrogen--in an attempt to boost crop yields, and hence future program payments.

* Crop specialization, rather than rotations, and separation of crops from livestock within a region, trends that generally have resulted in increased dependence on certain pesticides and biological problems in production systems (pesticide resistance, compaction, manure management problems).

The report repeatedly stresses one critical finding: the economic and environmental performance of farming systems are often closely interrelated. Farming systems that result in high per unit production costs often do so because of a mismatch in cropping patterns, natural resource conditions, and technology. Conversely, highly efficient and profitable farming systems--those with low per unit production costs--often contribute modestly, if at all, to off-farm environmental problems. Such low cost systems benefit from a careful selection of cropping patterns, creative approaches to the management of soil nutrient and moisture levels, and the prevention of pest and animal disease losses through a sophisticated combination of genetic, cultural, and when necessary, chemical technologies. I should add that this report emphatically rejects the notion that low-cost systems are always, or necessarily low-input systems. Indeed alternative systems are typically more hi-tech, more sophisticated, and clearly more dependent on information, management, genetic, and resource conservation expenditures.

When successful, they sustain high levels of production with reduced fertilizer, animal drug, and pesticide expenditures per unit of output.

Based on these findings, the report offers a number of specific suggestions regarding how American agriculture can move ahead in meeting the multiple, interrelated challenges of improving profitability, increasing international competitiveness while also improving the environmental performance of farming systems and the safety of the food supply.

As stated earlier, a range of federal policies inadvertently stand in the way of progress. The report highlights several key policies and program provisions that warrant reconsideration as the 1990 farm bill evolves:

- Cross-compliance provisions that, for some farmers, impose serious penalties following adoption of certain crop rotations.

- Commodity program, disaster program, and crop insurance policies that assume--at considerable expense both to farmers and government--a sizeable share of the economic risk inherent in high-yield, input intensive production systems in regions with erratic weather and vulnerability to drought, erosion, floods, and frost. The economic benefits of these policies are not distributed evenly across the country, yet the public and private costs of these policies must be considered if the nation is to foster competitiveness across the sector. These policies also discount the economic value to farmers of alternative production systems that are more diversified, resilient, and well-suited to the constraints of available natural resources.

- Current farm program payments often slow down the rate of adjustment in where crops are grown, and how. Inflexible base acre provisions have been widely recognized as a major impediment in expanding oat and soybean acreage; our report documents serious adverse resource and environmental consequences that also can result from inflexibility. This is a good example of an area of policy reform that will result in economic and environmental benefits.

There are three essential features of commodity policy that affect the economic climate in which management decisions are made. These features of policy will continue to exert considerable influence on whether farmers are willing and financially able to adopt alternative production systems:

* Who qualifies for program benefits and on what land?

* What must a farmer do to qualify for benefits in a given year, and to maintain future eligibility?

* What level of benefits--payment per acre or per unit of output--will a farmer qualify for?

The report calls for no new special incentives or subsidies for alternative agriculture. It simply calls for an even playing field. The committee is confident that many farmers will move ahead with adoption of alternative practices once some of the more burdensome constraints are removed. Federal commodity policy, in particular, should no longer be allowed to penalize certain farmers because they choose to experiment with innovative practices. Indeed, practices such as rotations, integrated pest management, and use of cover crops are routinely identified by scientists as beneficial to the environmental and economic performance of farming systems.

In closing, this report recommends important, although not revolutionary changes in commodity program rules, necessary to remove barriers to adoption of alternative agriculture. It is important to note that the Secretary of Agriculture has ample administrative authority to at least take some of the needed steps called for in this report, particularly in light of the surprising recent wheat program announcement regarding the over-planting of wheat-base acres.

Thank you for the opportunity to testify. I'd be glad to respond to questions.

ALTERNATIVE AGRICULTURE

Committee on the Role of
Alternative Farming Methods
in Modern Production Agriculture

Board on Agriculture

National Research Council

NATIONAL ACADEMY PRESS
Washington, D.C. 1989

Committee on the Role of Alternative Farming Methods in Modern Production Agriculture

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Senator Pryor. Dr. Benbrook, thank you.

By the way, you brought up Ray Thornton a moment ago. Just to inform you, Ray Thornton has announced his resignation as president of the University of Arkansas. The rumor has it that he may well be running for the U.S. House of Representatives here next year. We do not know that, that is pure speculation.

Dr. **Benbrook**. Well, he would be a tremendous addition to the Congress, wouldn't he?

Senator **Pryor**. He certainly would.

Mr. Ken Cook, representative of The National Audubon Society and testifying today on behalf of the Center for Resource Economics.

STATEMENT OF KENNETH A. COOK, REPRESENTATIVE, THE NATIONAL AUDUBON SOCIETY, AND VICE PRESIDENT FOR POLICY, CENTER FOR RESOURCE ECONOMICS, WASHINGTON, DC

Mr. **Cook**. Thank you very much, Senator. I appreciate the opportunity very much to testify today before the subcommittee. It is a little unusual, I suppose, to see environmental organizations represented at a subcommittee hearing that talks about primarily mainstream questions of price, income and so forth.

COMMODITY PROGRAMS AND ENVIRONMENT EFFECTS

As Chuck has suggested, there is a growing body of evidence and a great deal of concern about exactly what effects the commodity programs have on farmers' decisions that, in turn, affect the environment.

I want to point out that I am delighted to be able to represent not only the Center for Resource Economics today, but also The National Audubon Society, and both of these organizations have a great deal of concern about the balance that has to be struck between the environment and economic concerns of farmers. One should not go without the other.

POLICY IDEAS AND FARMING SYSTEMS THAT DO NOT MAKE ECONOMIC SENSE ARE PROBABLY NOT GOING TO HAPPEN

In particular, I would lay most of the stress on the economic issue. Policy ideas and farming systems that do not make economic sense are probably not going to happen, and I do not think we have many delusions about that.

FEED GRAIN PROGRAMS

When we look at the feed grain programs, the specific topic today, I would have to say that there probably is not another aspect of the 1990 farm bill that will attract as much attention from the environmental community. The reasons are fairly obvious: 55 percent of all herbicides are used on corn, 44 percent of all insecticides are used on corn, 43 percent of the nitrogen fertilizer use. This is very intensive use of agricultural chemicals. We also observe above average erosion rates on corn, strong associations between areas where aquifers are being depleted and corn production, and strong correlations between row-crop production, particularly corn and soybeans, but mainly corn, and nonpoint source pollution threats.

When you line those up and add in the wildlife concerns, we are interested in feed grains as an environmental issue and interested in making sure that the sector, if we can, can improve the environmental performance that we see now, as Dr. Benbrook alluded to.

I think even for people who are fairly familiar with agriculture, it comes as a bit of a shock to recognize that we have spent, since 1982, $174 billion in Federal assistance through the Commodity Credit Corporation on agriculture. That is a complete accounting. That is more than just the net outlays, which often do not record all of the certificate transactions, particularly in the early years.

We are looking at something like $19 billion in Iowa since 1982, $14 billion in Texas; it turns out $5.3 billion or so has been spent in Arkansas, and I think the environmental community looking at those expenditures, the initial question that is asked is: How can we use that leverage to improve environmental performance?

There are some people who offer advice to the environmental community that the best thing to do is just to cut the subsidies. They argue that that would sort of clear out the system. Markets would begin to operate in a beautiful, mystical fashion; resources would be allocated to their best use; wildlife would flourish and ground water would no longer be contaminated; and so forth. I am not of the view that that kind of thing is likely to happen or is advisable.

On the other side, there are some producers and some people, particularly in the agricultural chemical industry, who are saying that the only reason environmentalists are here is because they want to use the commodity program as a backdoor to regulation. I do not think that is a fair characterization, either.

THE REAL KEY IS TO TRY AND STRIKE SOME BALANCE AND TO SEE HOW THE PROGRAMS CAN BE MODIFIED TO IMPROVE ENVIRONMENTAL PERFORMANCE

The real key is to try and strike some balance and to see how the programs can be modified to improve environmental performance. We can do that. The Conservation Reserve Program now has about 300,000 satisfied customers down on the farm who have enrolled in 30.6 million acres, and there are 4 million acres in the wings. I think we can merge goals, if we work at it.

POSSIBLE REFORMS

I have suggested a couple of areas where we might explore possible reforms. One would be in the set-aside area, a variation of the conventional set-aside, whereby we might consider a variable rate: a higher set-aside requirement for producers who are very highly specialized, who produce a large amount of program crops on their farm. In this fashion we might perhaps allow a lower set-aside requirement for the producers who are more diversified, producing fewer surplus crops.

The second proposal is a variation on the conservation reserve program, where, instead of providing incentives for farmers to entirely change their land use and take it out of production for 10 years, we would perhaps consider encouraging crop rotations through incentive payments, a continuum of rotations. It would not have to be very drastic changes. In many cases a simple change from corn—continuous corn—to corn alternating with soybeans, can have a major impact on chemical use.

I will leave my comments there, if I may, Senator. Again, I appreciate this opportunity and will be happy to try and answer any questions you might have now or later on.

[The prepared statement of Mr. Cook follows:]

CENTER FOR RESOURCE ECONOMICS
Toward A New American Agriculture

Statement Of

Kenneth A. Cook

Vice President for Policy

Center for Resource Economics

And

Maureen K. Hinkle

Director, Agricultural Policy Program

National Audubon Society

Before The
Subcommittee on Agricultural Production
And Stabilization of Prices
Senate Committee on Agriculture, Nutrition and Forestry

September 21, 1989
Washington, D.C.

1718 Connecticut Avenue, N.W. • Suite 300 • Washington, D.C. 20009

Mr. Chairman, distinguished Members of the Subcommittee:

Thank you for the invitation to appear before the Subcommittee to discuss environmental aspects of the Department of Agriculture's (USDA's) commodity programs, with special reference to the feed grain programs.

For a variety of reasons discussed below, policies affecting feed grains are likely to attract more attention from the environmental community than any other aspect of the 1990 omnibus farm bill. From both a fiscal and an environmental standpoint, corn and the other feed grains are the big ticket items in agriculture.

I am testifying today on behalf of The Center for Resource Economics. It is also my honor to appear on behalf of my colleague, Maureen K. Hinkle, Director of Agricultural Policy for The National Audubon Society. The Center for Resource Economics is a not-for-profit environmental research and publishing organization based in Washington, D.C. Last May, the Center initiated "Toward A New American Agriculture", a program of research and policy analysis to assess ways of improving the economic and environmental performance of U.S. agriculture. The National Audubon Society, established in 1905, is a national conservation organization with 585,000 members throughout the United States. The Society owns or manages over 80 natural areas, some of which are working farms.

Both the Center and National Audubon are committed to exploring policies that will improve the income and financial status of farmers, while enhancing protection of the environment and natural resources.

Feed Grains, Federal Assistance And The Environment

The importance of feed grains to the U.S. farm economy can hardly be overstated. Feed grains comprise 4.5 of every 10 cropland acres planted, and make up 78 percent of the grain (by weight) produced. About half of every ton of grain exported is feed grains, and feed grain exports represent 15 percent of the total value of all U.S. exports--agricultural and nonagricultural.[1]

Hundreds of thousands of farmers earn their livelihood in large measure through feed grain production and, in particular, feed grain exports. These farmers were especially vulnerable to the volatility of the export market in the 1980s, and will remain vulnerable in the 1990s.

Even for those who are familiar with the recent history of U.S. agriculture, it comes as a bit of a shock to learn that federal assistance to farmers through the Commodity Credit Corporation has exceeded a staggering $174 billion dollars since the farm recession began in 1982. The rough arithmetic is about $87,500 for every farm in the country--though actual benefits are, of course, concentrated among wealthier farms.[2]

In Iowa alone, CCC assistance has totalled $19 billion over this period. Between $12 billion and $14 billion has been spent to assist farmers in each of four other states: Illinois, Minnesota, Nebraska, and Texas (Table 1). This is but a partial accounting of federal support for agriculture; even so, it far exceeds projected government costs for bailing out the savings and loan industry.[3]

Within this overall assistance, programs for feed grains producers are by far the most important. The $60.5 billion dollars in net outlays under the feed grains program constituted 42.7 percent of total net CCC outlays for the period 1982 through 1990 (estimated), which totalled $141.6 billion (Table 2).

This level of government support is unprecedented not only for agriculture, but for any sector of the economy, save for those devoted to public works or defense. Yet despite these expenditures, the farm community has sustained a 10 percent loss of farms (over 200,000, Table 1) and a 30 percent loss of farmers' wealth (from falling land values) in seven short years. Ironically, some of the greatest attrition in farm numbers has occurred in states receiving some of the larger infusions of agricultural assistance.

What is truly tragic about this recent history is not just the level of subsidy, or the human suffering that occurred notwithstanding federal aid. Rather, it is the realization of how perilously close the sector remains to a repeat disaster. The next bumper crop, here or elsewhere, the next hiccup in the global

TABLE 1. COMMODITY CREDIT CORPORATION ASSISTANCE FOR AGRICULTURE (FY 1982-JUNE 1989) PESTICIDES IN GROUND WATER, ACRES OF HIGHLY ERODIBLE CROP LAND, NUMBER OF FARMS LOST, BY STATE.

STATE	Total Commodity Credit Corporation Assistance FY 1982-89 (actual $)	Number Of Pesticides Found In Groundwater Due To Normal Farm Use	Highly Erodible Cropland (acres)	Estimated Number Of Farms Lost 1982-1988
Alabama	$965,891,408	3	1,600,000	7,000
Alaska	$3,193,487	1	49,579	+70
Arizona	$833,764,567	2	706,374	+100
Arkansas	$5,338,933,363	0	530,765	8,000
California	$8,446,410,527	13	900,000	+2,000
Colorado	$3,507,084,339	1	9,179,031	200
Connecticut	$37,389,056	8	13,600	300
Delaware	$68,110,241	--	10,651	500
Florida	$1,476,238,103	11	210,000	+1,000
Georgia	$1,765,809,147	2	1,111,759	8,000
Hawaii	$2,592,024	10	83,417	+150
Idaho	$1,689,511,971	1	3,659,279	2,200
Illinois	$13,736,042,904	9	4,912,384	16,000
Indiana	$5,920,081,041	1	2,736,341	11,000
Iowa	$19,127,995,645	8	11,750,000	10,000
Kansas	$8,255,224,841	12	13,059,645	6,000
Kentucky	$2,905,482,236	--	4,200,000	6,000
Louisiana	$2,777,504,704	2	177,994	4,500
Maine	$22,876,021	11	150,060	600
Maryland	$375,983,186	8	312,161	2,000
Massachusetts	$40,781,874	15	15,325	+800
Michigan	$3,082,137,000	2	575,000	8,000
Minnesota	$13,752,276,554	15	2,507,259	11,000
Mississippi	$4,446,689,110	13	1,559,687	11,000
Missouri	$9,470,894,364	--	6,300,566	8,000
Montana	$2,684,884,940	5	13,716,179	+600
Nebraska	$12,686,980,742	9	9,703,876	5,000
Nevada	$31,839,563	--	125,000	300
New Hampshire	$11,547,601	--	6,200	200
New Jersey	$89,941,336	6	71,683	1,200
New Mexico	$554,950,267	3	1,720,736	0

(continued)

Table 1. (Continued).

STATE	Total Commodity Credit Corporation Assistance FY 1982-89 (actual $)	Number Of Pesticides Found In Groundwater Due To Normal Farm Use	Highly Erodible Cropland (acres)	Estimated Number Of Farms Lost 1982-1988
New York	$859,184,175	21	1,020,042	7,000
North Carolina	$2,951,749,679	2	1,206,865	18,000
North Dakota	$7,559,520,573	3	7,014,776	3,500
Ohio	$3,704,885,565	--	1,749,150	8,000
Oklahoma	$3,166,178,336	--	4,739,825	3,000
Oregon	$787,867,639	2	1,668,000	500
Pennsylvania	$591,070,221	7	1,900,000	5,000
Rhode Island	$566,695	4	494	30
South Carolina	$583,582,678	5	417,673	5,000
South Dakota	$4,520,470,929	4	3,631,321	2,500
Tennessee	$1,779,008,608	--	2,513,100	4,000
Texas	$14,089,758,138	6	12,026,372	1,000
Utah	$1,487,365,155	--	527,288	700
Vermont	$84,848,403	3	83,000	400
Virginia	$635,521,905	11	1,027,815	12,000
Washington	$2,436,762,127	2	3,652,000	1,000
West Virginia	$52,436,159	--	65,000	1,300
Wisconsin	$4,455,074,402	15	3,292,288	8,000
Wyoming	$205,474,973	--	944,500	200
Puerto Rico	$2,496,664	--	1,019	--
TOTAL	$174,062,865,186	74*	139,135,079	203,410

SOURCES: USDA CCC data from Federal Assistance Award Data System. Includes direct payments (for feed grains, rice, cotton, wheat and wool), Grain Reserve Program, Emergency Feed Program, Storage Facilities & Equipment Loans, Commodity Loans and Purchases and Other, Milk Diversion Payments.

Pesticide data from Pesticides in Ground Water Data Base: 1988 Interim Report. U.S. Environmental Protection Agency. December, 1988.

Highly erodible cropland data from USDA, Soil Conservation Service.

Farm loss data from USDA, Economic Research Service.

*Total number of pesticides. Column does not total 74 because of double counting.
-- Indicates missing data.
+ Indicates farms gained.

recovery, and the numerous and welcome signs of recovery we see today could vanish tomorrow; we could well be staring 1985 in the face all over again.

Merely to balance on this sword will require net outlays of between $9 billion to $13 billion per year through the early 1990s, depending on the estimate one consults. Of that, perhaps $3.5 to $5.5 billion or more might be required for feed grain producers. It has become commonplace to hear farm leaders refer rather comfortably to spending levels in the $12-13 billion range, almost as if it were the new "baseline" for agriculture. And I have heard more than one commodity group representative reassure an audience that the decline from $26 billion to $12 billion in outlays is indicative of just how well the 1985 farm bill has worked.

Year in and year out during the 1980s, the United States has simply produced far too much for the market to bear, so taxpayers have picked up the difference. But federal outlays have not been the only cost; the environment, too, has suffered. Because of the vast scale of corn production and the prevailing modes of corn farming, the feed grain subsector is of special environmental significance.

In recent years, corn has accounted for 55.6 percent of herbicide use, 44 percent of insecticide use, and 43 percent of fertilizer nitrogen use in agriculture (Table 3). A map of the areas of potential groundwater contamination from agricultural chemicals--both nitrate and pesticides--seems to pivot around the Corn Belt.[4] Corn is fairly extensively grown in areas where groundwater overdraught is a problem. Land planted to corn experiences erosion rates above the national average and, as the combined result of the large area planted and the heavy use of agricultural chemicals, corn land figures prominently in nonpoint source pollution of surface water and loss of or damage to wildlife habitat.

When it occurs on the scale it has for most of the 1980s, excess capacity in the farm sector generally, and in the feed grain subsector in particular, constitutes an important source of "waste". Enormous quantities of agrichemicals (as well as other inputs) have been used to produce crops for which there was no market but the U.S. Treasury.

In 1986, The Conservation Foundation estimated the fertilizer and pesticide use associated with "excess"

TABLE 2. CCC NET OUTLAYS, FEED GRAINS AND TOTAL, 1982 THROUGH 1990 (ESTIMATED).

	TOTAL	1982	1983	1984	1985	1986	1987	1988	1989E*	1990E*
					MILLION DOLLARS					
Feed grains	60,500	5,397	6,815	(758)	5,211	12,211	13,967	9,053	3,042	5,562
TOTAL	141,633	11,652	18,851	7,315	17,683	25,841	22,408	12,461	13,843	11,579

*Estimate.

SOURCE: USDA, Economic Research Service. "Agricultural Outlook." September, 1989.

Table 3. Estimated 1989 Pesticide and 1988 Fertilizer Use On Major Field Crops, 1988/1989.

CROPS	PESTICIDE Herbi-cides	PESTICIDE Insecti-cides	PESTICIDE Fungi-cides	FERTILIZER N	FERTILIZER P2O5	FERTILIZER K2O
	----Mil. Pounds*----			---1,000 Nutrient Tons---		
Corn	219	27.1	0.06	4493	1853	2242
Cotton	16	15.6	0.16	390	142	78
Sorghum	11	1.9	0			
Peanuts	6	1.3	6.19			
Soybeans	108	9.5	0.06	104	367	721
Tobacco	1	2.7	0.35			
Barley/Oats	5	0.2	0			
Rice	12	0.5	0.07			
Wheat	16	2.2	0.88	1741	643	307
Other Crops				3748	1107	1596
TOTAL	394	61	7.77	10475	4112	4943

SOURCES: Pesticide data from "Agricultural Resources: Inputs Situation And Outlook." USDA, Economic Research Service, AR-15, August 1989. Fertilizer data from "Fertilizer Use and Price Statistics, 1960-88." Harry Vroomen. USDA, Economic Research Service, Stat. Bull. 780.

* Active ingredient.

production of corn and wheat, represented by ending stocks in excess of levels that trigger acreage reduction programs under the 1985 Food Security Act. CF estimated that nitrogen and phosphorus fertilizer use associated with excess production in 1986 equalled 5.9 billion pounds for corn and 1.4 billion pounds for wheat. Herbicide and insecticide use associated with this production equalled 104.5 million pounds for corn and 5.2 million pounds for wheat.[5]

One of the most salient examples of the contradiction between federal farm and environmental policies was EPA's 1986 regulatory decision on the widely used herbicide alachlor. EPA determined that potential ground water contamination and cancer risks posed by widespread use of alachlor were outweighed by the chemical's benefits--mainly its yield and production boosting effects on corn.[6] EPA estimated corn production losses of between 101 and 190 million bushels (3.9 to 7.3 bushels per acre on 26 million acres) from a ban on alachlor, and simply scored these as an economic loss for producers. But the loss amounts to just 10 to 19 percent of excess corn capacity for 1980 through 1986, estimated at more than 1 billion bushels.[7] In the years immediately preceding and following the EPA decision, CCC expenditures for feed grains (mainly corn) exceeded $5 billion dollars annually. And, of course, excess capacity triggered corn production controls averaging 13.7 million acres per year in the three years before and after EPA's decision.[8]

A Strategy for Environmentalist--And Farmers

Assuming there would have been an adverse economic impact on corn producers as a result of restrictions or an outright ban on the use of alachlor, could USDA have mitigated the action by simply reducing set-aside requirements for the affected producers? Questions of this nature can scarcely be asked let alone pursued within USDA and EPA at present. A knot of contradictions has federal agricultural policy directly at odds with environmental policy.

But how to untangle the knots? As environmentalists formulate a strategy they hear commentary from two extremes.

What might be called the Tenure School of farm policy advises environmentalists not to bother; it will never work. The only solution, they argue, is simply to cut agriculture loose, and allow the Invisible Hand to work its magic. If the government would cease its simultaneous stomping on the brake of production controls and base acreage, and on the accelerator of loan and direct payments--the reasoning goes--the farm economy would flourish, environmentally clean, economically unfettered. Markets would respond like orchestras, gracefully allocating all manner of resources to attractive ends. Aquifers would neither be polluted nor drained; unruly soils would come to rest; wildlife would frolic on sparkling or abandoned spray booms, and atrazine would be spritzed like rare perfume. Economists would be free to reveal, at last, all those "market clearing prices", and U.S. market shares and golf scores would, alas, be impossible to distinguish. Beef would be in very short supply, of course, unless you were lucky enough to live in Tokyo, and farmers, being fewer, would be loads easier to regulate. Wink wink!

At the other extreme the advice more nearly resembles accusatión, and it tends to come from the Live Free CCC Or Die wing of American agriculture. These are angry farmers, hungry input sellers, who craftily ask environmentalists why we're nosing around the commodity programs, only to confirm their darkest suspicions when we utter the same answer arch-thief Willie Sutton gave when asked why he robbed banks: Because that's where the money is. These are farmers who feel indignant that the public would so much as inquire about the agriculture's environmental impacts, and who abhor the thought of any government interference in farming. Unless, that is, the interference takes the form of a CCC check.

Of course, the commodity programs are where the money is; for the full array of agriculture's environmental problems, quite frankly there is nowhere else worth looking. The goal, which thankfully is shared by the vast majority of farmers and environmentalists, is to see how the enormous weight of commodity and other USDA programs can gradually leverage movement toward a more environmentally benign agriculture. How much can be done to deal with groundwater contamination and cut back on chemical use without resort to regulation or ecological sticker shock? How can it be done gradually, taking advantage of farmers' know-how? Farmers and environmentalist explored that potential in 1985, and one result--the CRP--has produced 300,000 happy customers down on the farm, holders of over 30 million acres of contracts.

That is the spirit in which this Committee has long approached the convergence of agriculture's economic and environmental problems. It is certainly the spirit in which Senator Fowler introduced legislation last spring, followed shortly by a bill from Senator Lugar, exploring these issues.

Equity, Efficacy, and Environmental Reform

The recent NRC report makes a compelling case that USDA commodity programs are a major barrier to alternative agriculture systems. Because the production of certain of these program crops--notably corn, wheat, cotton, and rice--remains in chronic surplus, opportunity exists to reduce production in ways that benefit the environment and serve production adjustment goals. Similar logic underlies the CRP and other provisions of Title XII. As was the case with the provisions of the Conservation Title in 1985, any attempt to modify longstanding agricultural programs immediately raises problems of equity and efficiency.

A substantial number of farmers, for example, already utilize fairly diversified crop rotations, incorporating legumes and small grains with corn, soybeans and other crops. Under current policies these farmers are penalized, in terms of government support, relative to neighbors who have planted program crops fence row to fence row. Considerations of equity make it a matter of some interest to either remove or reduce those penalties; some people believe it is only fair to actually reward cropping patterns that can be considered "resource conserving", in effect conferring program status on crops that do not now have it. It can also be argued that unless the playing field of farm programs is levelled, more and more producers will succumb to the economic pressures to simplify rotations in favor of program crops. Agriculture's economic and environmental problems could be aggravated as a result. Analysis of impacts on cattle, forage, and small grain producers, therefore, is essential in any consideration of any reform that has the potential to significantly shift the mix of farm enterprises.

But from the standpoint of environmental goals, rewarding existing sound practices is inherently less efficient than policies aimed at the farmers who are doing the "wrong" things: those who are growing continuous corn, for example, and applying the high levels of nitrogen and pesticides common to that cropping regime. Paying a farmer to continue rotating crops may be the equitable thing to do; paying a farmer to begin rotating crops (switching from continuous corn for instance) is the efficient thing to do, simply because it can result in major reductions in chemical use. The logic carries over to fiscal considerations as well. Farmers whose rotations already have the effect of holding down production of surplus crops are already doing the right thing, but from the perspective of USDA and the Office of Management and Budget, there is no need to pay them and nothing to gain by doing so. Farmers who are maximizing their production of surplus crops, on the other hand, are the principle targets of USDA programs and the main recipients of program benefits.

As is the case for sustainable or alternative farming systems generally, crop rotations, present a continuum. In the corn belt, for example, the continuum ranges from continuous corn, to corn alternating with soybeans, to myriad rotations incorporating an array of legumes, grasses, and small grains. Environmental gains can accrue all along this continuum, not just at the fully diversified end of it. A shift from continuous corn to corn and soybeans, for example, has the potential to significantly reduce nitrogen and insecticide use.

A recent USDA survey of corn production suggests, however, that rotations alone may not automatically reduce chemical usage and attendant risks to health and environment.[9] In 10 major corn production states, the survey found that 28 percent of the acreage had been planted continuously in corn for 1985-1987. Most of the rotations, however, featured a legume--primarily soybeans--for at least one year. But the survey revealed a rather modest difference--11 pounds per acre, on average--in the amount of nitrogen farmers applied to continuous corn compared to other rotations (Table 4, Figure 1). In some states, there was essentially no difference in N use between rotations--as one can readily see from the bar chart. This may be evidence of the commonly voiced view that farmers tend to disregard the nitrogen fertilization "credit" that accrues when corn follows a legume in rotation. Farmers overfertilize as a result.

The same survey indicates a related problem, readily seen in the bar chart: many farmers who use manure on corn fields appear not to credit the nitrogen it contains, and add N as if they did not use manure (Table 4, Figure 2). These farmers, too, are likely overfertilizing, perhaps disposing of manure as a waste problem without adjusting fertilizer N rates

Table 4

Nitrogen Application Rates:
Continuous Corn, Corn in Rotation,
With and Without Manure Application

State	Continuous Acres	--Rotation-- Corn* N Used	Other** N Used	Other As Percent of Continuous N Use	Manure Applied Acres	Manure Applied N Use	No Manure N Use	N Use With Manure As Percent of No Manure
	Percent	--Pounds/Acre--		Percent	Percent	--Pounds/Acre--		Percent
Illinois	27	158	157	99.4	10	155	157	98.7
Indiana	30	142	125	88.0	15	122	131	93.1
Iowa	23	137	128	93.4	23	127	131	96.9
Michigan	28	127	116	91.3	13	123	118	104.2
Minnesota	16	113	116	102.7	21	89	122	73.0
Mississippi	11	125	127	101.6	ND	ND	129	
Nebraska--Irr	73	153	162	105.9	ND	ND	155	
Nebraska--Dry	17	84	85	101.2	ND	ND	87	
Ohio	16	146	139	95.2	17	110	147	74.8
South Dakota	15	69	47	68.1	14	49	50	98.0
Wisconsin	46	100	80	80.0	42	71	102	69.6
Average	28	137	126	92.0	16	110	130	84.6

*Corn grown in 1987 and in two preceding years.

**Corn grown in 1987, preceded by crop other than corn in either 1986 and 1985 or in both years.

ND = No Data

SOURCE: Data from Agricultural Outlook, December 1988. USDA

Figure 1

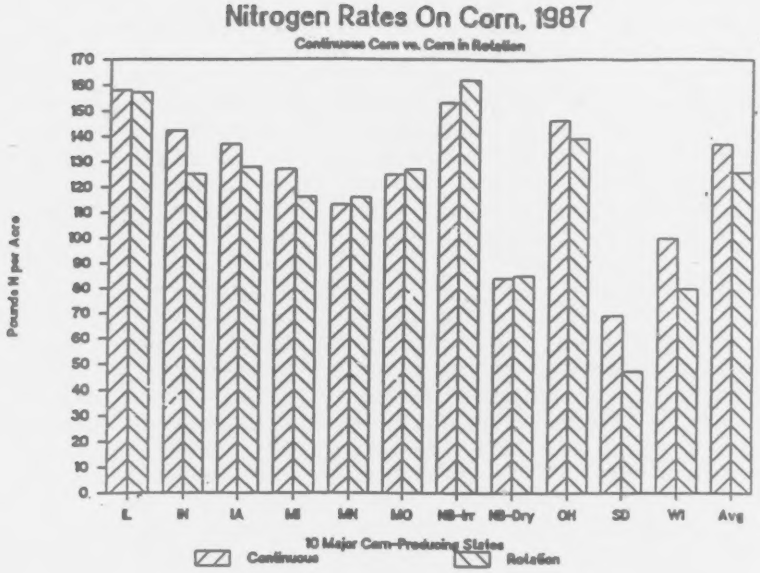
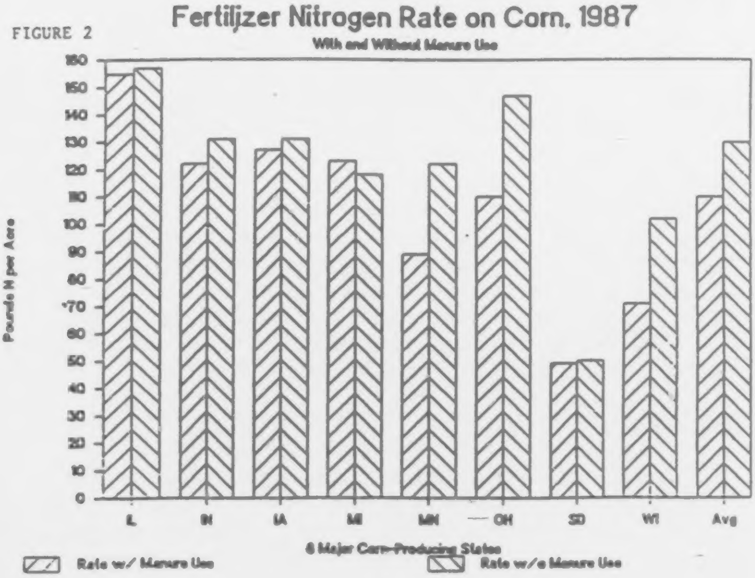


FIGURE 2



SOURCE: Agricultural Outlook, Dec. 1988

adequately.

On the other hand, the survey rather strikingly suggests that simply shifting from continuous corn to a rotation incorporating another crop (such as soybeans) may have a fairly automatic and substantial effect on corn insecticide use (Table 5, Figure 3).

These findings suggest a need for caution in devising alternative rotations--and perhaps the need for a different policy instrument to more effectively ensure environmental gains accrued from commodity program reforms, particularly when incentives are being offered to farmers to participate.

Variable Set-Asides Based on Scale, Specialization

One possible way to resolve these conflicts may be to gradually increase production adjustment requirements for producers who are relatively more specialized in terms of program crops, while lowering it for those who have more diversified operations. Traditionally, set-aside requirements have been identical for all producers, regardless of their size or degree of specialization. This concept might be termed "variable set-side", and its parameters might be established by a combined index of commodity specialization and scale of production. Producers wishing to diversify would have the incentive of lower set-aside requirements. Those who wish to continue highly specialized production would be free to do so, but since they contribute disproportionately to production of surplus commodities, their production adjustment might be commensurately increased. Scale and specialization factors would differ among crops. And for many commodities and regions--particularly in dryland areas and in the southeastern United States--fewer farm enterprises can readily substitute for prevailing enterprises. By phasing in the policy, allowance could be made for economic use of set-asides; transition payments might be desirable.

ESP: A CRP Hybrid

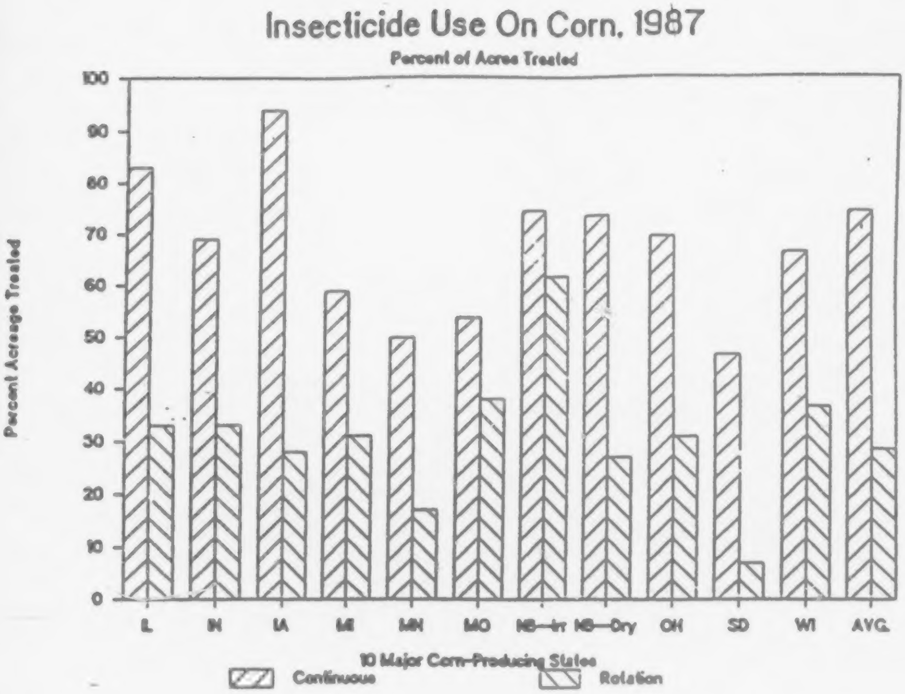
Equity, efficacy and other problems may argue against wholesale, untargeted reform of constantly changing commodity programs. For all its weaknesses, the CRP concept could have fundamental advantages over commodity program reform for promoting environmentally sound "flexibility". A hybrid CRP, drawing on elements of Senator Fowler's Low-Input Agricultural Production System Program and Senator Dole's ECARP concept, might

Table 5. Insecticide use on corn by type of rotation, 1987.

STATE	Continuous Corn	Noncontinuous Corn
	Percent of acres treated	
Illinois	83	33
Indiana	69	33
Iowa	94	28
Michigan	59	31
Minnesota	50	17
Missouri	54	38
Nebraska--Irr	75	62
Nebraska--Dry	74	27
Ohio	70	31
S. Dakota	47	7
Wisconsin	67	37
AVERAGE	75	29

SOURCE: USDA, Economic Research Service. "Agricultural Outlook." December 1988, pg. 24

Figure 3



SOURCE: Agricultural Outlook, Dec. 1988.

encourage cropping and management changes that fall short of complete land use changes. This successor to the CRP, an Environmental Stewardship Program (ESP) might consist of 10 year or 15 year contracts under which farmers might be compensated :

1) Adjust rotations **on the entire farm** in ways that control erosion yet reduce production of surplus crops and use of agrichemicals;

2) Modify the amount, timing and method of agrichemical application to economize on inputs (use less overall) and improve input efficiency (use less per unit output of crop);

3) Adopt long-term integrated pest management systems which incorporate biological controls;

4) Modify farming practices to enhance wildlife;

5) Experiment with sustainable farming systems that incorporate alternative crops, promising pest control techniques, animal waste control methods, energy conservation programs, etcetera;

6) Adopt Best Management Practices (BMPs) for water quality, food safety, or other environmental concerns, that include chemical-specific practices (reduced or no use of target herbicides, insecticides, and fungicides, for example).

ESP contracts (including those converted from CRP) could contain all or some of these provisions, depending on site-specific environmental goals agreed to by the farmer and identified by USDA (as highly erodible land is identified now)
or a state agency (under Section 319 plans perhaps). Payment rates would be keyed primarily to the impacts on production adjustment and farmer's costs, but could also reflect reimbursement to farmers for the cost of farming in ways that benefit society. In the case of crop rotations, for example, compensation might be much lower, or might be eliminated altogether, for producers who shift from continuous corn to a corn-soybeans rotation (such a shift would be expected to reduce chemical use, but might increase erosion hazard). However, to encourage farmers to participate in the ESP, they might only be able to diversify their base via an ESP plan. Larger payments would be made to producers who venture a more dramatic rotation shift and greater reductions in agrichemicals. Producers who already have such rotations and chemical usage patterns

might be eligible for mid-range payments, or be compensated by having their set-aside requirements adjusted downward over time to reflect the production adjustment impact of their historical rotations.

A long term contract approach along the lines of ESP offers these advantages over commodity program reform: it is a long-term mechanism less susceptible to vicissitudes of the market; it can be targeted geographically, by type of environmental problem, or by other criteria; it provides a greater measure of predictability to farmers and USDA program managers; the program could be opened to a broader range of farms and farm enterprises, including producers of non-program crops and potentially livestock operations; impacts on farmers and the environment would be easier to measure and evaluate.

Concluding Comments

The NRC Committee on Alternative Agriculture has officially opened the debate on this enormous question, suggesting sensible lines of inquiry and the means by which to pursue them. It will mark, one hopes, a turning point in American agriculture, one that ought to have been reached much earlier but for many reasons was not reached.

Above all, farm policymaking in 1990 calls for imagination: a willingness to look beyond circumstances as we will find them next year to what is best in the long run for agriculture and society. It seems that policymakers are under an obligation to devise balanced programs that will mutually benefit farmers and consumers, taxpayers and the environment. This testimony has touched on only one, albeit one very important, topic for the upcoming debate.

Clearly, some of the basic terms of reference in farm policymaking have changed in the past decade. Farmers and environmentalists are beginning to learn they have much more in common than they have separating them.

Mr. Chairman, I will try my best to answer any questions you or any of your fellow Committee Members might have, now or whenever I may be of assistance. Thank you, again, for your invitation to testify.

FOOTNOTES

1. Source for feed grains statistics: J.B. Penn, Sparks Commodities, Inc., McLean, Virginia, personal communication.

2. The calculation assumes $174 billion is divided evenly among 2 million farms. In reality the distribution is strongly skewed toward larger producers. For example: "Approximately 24 percent of the $11.8 billion in direct payments in 1986, and the $16.7 billion in 1987 went to farms with [annual] sales of $250,000 or more. These large farms were 4.6 percent of all U.S. farms." Direct payments averaged more than $38,000 for farms in this sales class in 1987 alone, and direct payments are but one of the benefits extended under USDA programs. Economic Indicators of the Farm Sector: Farm Sector Review--1987. USDA, Economic Research Service, ECIFS 7-4. page 31.

3. Total CCC assistance is a more inclusive measure of Federal assistance to agriculture than net CCC outlays, for it reflects such things as CCC certificates and a wider range of programs. It does not reflect total assistance to agriculture, however, which would have to include impacts of selected programs on consumer prices, various technical assistance programs, many of the loan programs of the Farmers Home Administration (FmHA), and some disaster and other programs.

4. Nielsen, Elizabeth G., and Linda K. Lee. The Magnitude and Costs of Groundwater Contamination From Agricultural Chemicals: A National Perspective. USDA, Economic Research Service, AER 576. The map in reference appears on page 16.

5. Healy, Robert G., Thomas E. Waddell and Kenneth A. Cook. 1986. Agriculture and the Environment in a Changing World Economy. Also in State of the Environment (The Conservation Foundation, 1987), p. 399-400. A more sophisticated treatment of "excess capacity" is found in Dvoskin, but it does not translate excess capacity into excess use of fertilizers or pesticides. Dvoskin, Dan. 1988. Excess Capacity in U.S. Agriculture: An Economic Approach to Measurement. U.S. Department of Agriculture. Agricultural Economic Report Number 580. 25 pages.

6. See: Hinkle, Maureen K. 1987. "Comments on EPA's Proposed Decision To Reregister Alachlor." National Audubon Society (Washington, D.C.)

7. Dvoskin, Excess Capacity, op. cit., calculated from Table 5 (p. 21). Production losses for soybeans, another major benefit cited by EPA in its review, also represent a fraction of estimated excess capacity for 1980-1986.

8. Includes diversion, PIK, and ARP; another 3.4 million acres have been enrolled in the CRP since 1986.. Agricultural Outlook, September 1989, p. 46; CRP data from ASCS.

9. "10 States Surveyed On Corn Production Practices." Stan Daberkow, Leroy Hansen, and Harry Vroomen. Agricultural Outlook, December, 1988.

Senator **Pryor**. We look forward to having your full statement included in the record.

Let me say that there is no secret, I have spoken to our soybean growers, our rice growers, cotton producers all across our State, in fact in other areas of this country in the last year, and I told them, as we look at the 1990 farm bill, that somehow or another we will ultimately sit around this table, we will work out the loan rates, we will work out the target prices, after a lot of give and take, and satisfaction for some, dissatisfaction for others, but ultimately, and carefully, I hope, weave our way on to an acceptable program.

But I have told each group that the most controversial, contentious No. 1 issue that will ultimately arise from all of this will be those issues that affect our environment, clean food, clean water, safe products that are produced that the consumer consumes, and I am hoping that the members of this committee—and I think they are—are reaching the realization now that this is going to be a major source of debate in this room when we ultimately start marking up the 1990 farm bill.

It is not only an issue in this country. I had the privilege of going to Europe with Senator Lloyd Bentsen over Easter, and there were four Senators, and at each stop we heard the issue of the environment as it relates to agriculture and other areas, so it is a worldwide issue and it is coming home to roost right here in this room, as we begin next year drafting the 1990 farm bill.

I appreciate your remarks and look forward to reading your statement.

Mr. Charles Frazier, with the National Farmers Organization, is certainly no stranger to this committee. Mr. Frazier, we appreciate you being here this afternoon and look forward to your statement.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, NATIONAL FARMERS ORGANIZATION, WASHINGTON, DC

Mr. **Frazier**. Thank you, Mr. Chairman. I will undertake to be brief, in the interest of saving you some time.

In addition to making my statement a matter of record, I should like to place in the record a letter from the National Farmers Union.

Senator **Pryor**. Are you submitting a statement?

Mr. **Frazier**. I say I also would like to place in the record a letter from the National Farmers Union. They have reviewed our testimony and our primary objectives.

Senator **Pryor**. We appreciate that letter and it will be placed at the appropriate place in the record. Thank you.

Mr. **Frazier**. Thank you, sir.

[The letter referred to follows:]

National Farmers Union,
Washington, DC, September 20, 1989.

Charles Frazier,
Legislative Director, National Farmers Organization.

Re: Support for Feed Grains Testimony.

Dear Chuck: National Farmers Union would like to inform you that we support the National Farmers Organization testimony on feed grains that will be delivered to the Senate Agriculture Committee on the 21 of September.

The selection of the three issues, loan rate, farm production base, and realignment of target and loan rates between various commodities, are also priority issues with our membership. We welcome the opportunity to unite with our fellow farmers in pursuing the common objective of a more sustainable family farm.

The National Farmers Union and the National Farmers Organization must stand shoulder to shoulder in the debate of the 1990 farm bill if the best interests of all Americans are to be achieved.

Sincerely,

MICHAEL V. DUNN,
Vice President, Legislative Services.

THREE RECOMMENDATIONS FOR THE 1990 BILL

Mr. FRAZIER. Let me quickly summarize our position and offer three recommendations for the 1990 bill. We have appreciated working with your staff; they have been very cooperative, and we look forward to working with you in more detail as time goes on.

Simply stated, we think the export-driven policy under which we have been operating in recent years has been all out of proportion, considering the challenges we will face budgetwise over the next 5 or 6 years. Consequently, we would point out to you that, even with the efforts made in the field of exports, the gains have not been such as to support a blind devotion to or continuation of the present program.

Factually, let me point out that the export value of grain and seeds was over $4 billion down from 1984 to 1988. The increased value of exports really resulted from an increase in exports of forest products, fruits and vegetables, animal products, and so on. In other words, without appearing to be overly critical, we do not think we are getting very far in this argument with Europe that we cast almost wholly on the basis of low prices and taking markets from them.

THERE SHOULD BE SOME INCREASE IN THE LOAN RATES

Not having faith that approach is going to be successful, we would urge you to consider these three things: There should be some increase in the loan rates. We do not mean to launch exorbitant demands or anything of that sort, but, for example, we ought to get the corn loan rate back up to $2 a bushel or a little over. We should have proportionate changes in the other rates. It is believed this would contribute substantially to reducing the drag on the national budget. I would venture the opinion that it is time to consider the rather broad base of support we have had for farmers in this Congress. We have certainly appreciated that support in recent years, but we may be risking too much to continue with low loan rates and count on big Treasury checks to hold up our farm income. Given our choice, we would choose to increase loan rates, reduce the drag on the Treasury, and undertake to keep those target prices up at least at current levels. We think this could be done in a sound fashion.

WE THINK THAT THE RELATIONSHIP OF LOAN RATES BETWEEN THE FEED GRAINS IS OUT OF WHACK

Secondly, there has been a good deal of talk this morning by other witnesses about the problems existing between the various commodities. Said succinctly, we think that the relationship of loan rates between the feed grains is out of whack. For example, in the case of oats, the result of the low loan rates in recent years has amounted to favoring barley over oats in the Midwest and out on the Plains. Oat production has dropped, as brought out this morning in other testimony. We believe all conversations about flexibility aside, if you want oats produced, you have got to readjust the loan rate between those two crops.

Another outstanding example is the relationship between corn and soybeans. We understand that exporters and crushers would all like to have more soybeans, and that is fine. We would like to produce them and want to sell them, but think you really will answer that problem only if you readjust the loan rates so that soybean loan rate is again about 2½ times the corn loan rate. You are running now at about 1½ times, and that is not enough to reward our farmers for producing the soybeans that you would like to have in the market.

ADMINISTER THE PROGRAM IN BUSHELS, POUNDS, OR BALES

The third important issue that we take very seriously is often referred to with a broad reference to environmental concerns. Our people think that we have probably run the course in undertaking to administer these programs through acreage controls. Overly simplified, we recommend that you shift the administration of the program from arguments about acres and bushel yields to one in which you would simply administer the program in bushels, pounds, or bales. We think the farmer would better understand it.

For example, you administer the whole tax structure in this country on the basis of certifications subject to spot check and audit; we think you could run a farm program in the same manner. If you gave a man so many bales of cotton or so many bushels of corn as his goal for that particular year, then you can work out the details and reward him with price support if he stays within that farm goal. It would make it much more understandable when you talk to him about crop rotations, managing the farm efficiently and let him plan the use of his fields. Let him run his farm the way he wants to, and if he wishes to qualify for the program, figure it out on a bushel basis and quit chasing around with little maps trying to identify the planted acres and that sort of thing. We think this could be done and we are prepared to work some more with you on it.

Thank you, sir.

[The prepared statement of Mr. Frazier follows:]

NATIONAL FARMERS ORGANIZATION

Subcommittee on Agricultural Production
  and Stabilization of Prices
Committee on Agriculture, Nutrition,
  and Forestry
United States Senate

Statement of Charles L. Frazier
National Farmers Organization
September 21, 1989

Feed Grains in the 1990 Farm Bill

Mr. Chairman and members of the Subcommittee, the National Farmers Organization appreciates this opportunity to express our views concerning feed grain policy in the upcoming 1990 farm bill.

As you proceed in development of a 1990 farm bill, two areas will receive widespread attention among agricultural interests. One is the pressure to reduce government spending for commodity programs, as a part of the larger budget deficit reduction effort. The second will be a demand for greater planting flexibility for the various program crops.

Before I discuss the specifics concerning feed grains and the 1990 programs, there is a third area that vitally affects our domestic agricultural policy on almost all commodities, and one which I sincerely hope will be addressed by this committee as you proceed with development of U.S. agricultural policy for the 1990s. Our export driven policy has been the underlying basis for almost all of the current commodity program provisions. That is the only logical explanation for a government policy that consciously intervenes in the market place to lower prices for our production and then attempts to make up lost farm income through extremely high direct payments to agricultural producers.

The NFO is not interested in castigating the authors of the current program. However, we are deeply concerned with the developing conflict of major national interests -- the need to deal with the rapidly mounting national debt and the pressing demands for more spending on domestic problems. Failure to anticipate the consequences and restructure the farm program in 1990 can mean another round of financial disaster for mid-range producers in the 1990s and eventually a threat to the stability of our food supply.

The following information, taken from USDA-ERS publications and other recognized analyses of the 1985 Act, raises very serious questions concerning the wisdom of continuing the 1985 legislation with only minor modifications.

-- The export value of grain and seeds was over $4 billion less in 1988 than in 1984 (30% drop). The increased value of our ag exports ('84 - $45.9 billion; '88 - $46.9 billion) resulted from increased exports in forest products, fruits and vegetables, animal products and other non-crop exports.

-- Studies show that the increase in net farm income is attributable to lower production costs and increased livestock receipts. The large government payments simply offset reduced crop cash receipts, inventory values and other income. After correcting for the lower grain values resulting from the 1985 Act, the large government payments had little impact on farm income -- it was basically a wash.

-- Nationally, direct payment contributions to net farm income averaged 36% of total net income in 1987. In the Midwest states which are more dependent on program crops and less on livestock, government payments were a much larger portion of net income. For example, direct program payments in Illinois represented 94% of net farm income.

We believe this Administration, burdened as it is with debts and policies established in the 1980s, will fail to convince other major governments in GATT negotiations that they should terminate all food subsidies and farm programs. That being the case, it well behooves all members of this committee to take the lead in reshaping our farm policy before we lose another block of family size farmers and have to depend largely upon absentee investors and hired hands for our national food supply.

NFO Recommendations - Feed Grains 1990 Farm Bill

There are three specific areas affecting feed grains in which NFO recommends changes in the 1990 farm bill:

1. Loan rates for all of the feed grain crops should be increased to a minimum of at least 75% of the cost of production. Currently loan levels range from a low of 32% of the cost of production for oats to 65% of production costs for corn. Target prices for all of the commodities should be set in the range of full production costs. Under this approach there are two significant and immediate impacts: (a) A substantial reduction in deficiency payments, since you reduce the spread between the loan rate and target price; and (b) The price support floor would be increased immediately for all feed grain commodities. The resulting impact on export volume would be negligible, if not

neutral, since all resulting price support levels computed at 75% of USDA's published production costs are below current and projected world equilibrium prices. The farmers would receive more of their net farm income from the market place rather than the mailbox.

2. Realign loan and target price rates between the various commodities. Under current law, USDA is required to set support levels for feed grain crops other than corn at levels reflecting their relative feed value when compared to corn. At current price support levels for feed grains, the most conspicuous bias is against oats. Production costs and yields per acre in the historical oat producing areas are almost identical to barley, yet the support level for barley is over 60% higher than oats. The result has been to stop planting oats in favor of barley or wheat in the Upper Midwest or Northern Plains area where oats were traditionally grown in rotation with these crops. Oats production in the U.S. has dropped from 40 to 50% since the early 1980s. Today we are importing oats from the E.C. and Canada to meet our domestic needs.

Another obvious example is the relationship between soybeans and corn. A rule of thumb for many years at USDA was that the soybean price support level should be approximately 2 to 2 1/2 times the support level for corn to compete for acreage in the corn belt and the Southeast. Price support for soybeans today is only a little over 1 1/2 times the income support level for corn. We believe that is the major reason that soybean production in the corn belt and many areas of the Southeast has declined in recent years.

As long as we are dependent on program payments for our net crop income, and the relative relationships between support levels for the various commodities are out of line, the problem will continue to affect our flexibility in making planting decisions. Substitution provisions between program crops, a "triple base" plan or other complicated base substitution schemes will not correct the flexibility problem without price support adjustments.

3. A farm production base should be established in bushels or pounds in lieu of the current acreage bases and per acre yields. We propose that the current established acreage bases and yields be converted to pounds or bushels for feed grain farms. Based on national production goals for each commodity, including domestic needs, export requirements and desired carryover, the Secretary could then adjust individual farm production bases up or down from year to year depending on our projected national production goals. Price support loans or other program benefits should then be limited to the established production base for the farm.

We believe there are many advantages to this approach over the current base acreage provisions. First, it would provide much greater planting flexibility, since a producer would not have the concern over base preservation, and a farm's program benefits would not be measured by the number of acres planted. Favorable environmental impacts would be significant, since there would no longer be such a strong incentive to increase yields through heavy chemical application. Budget exposure and program costs would be reduced by limiting payments and price support loans to the bushel or poundage base for the farm. Last but not least is the simplicity of this approach, compared to a complicated scheme of juggling base acreages and keeping records of the various commodity bases. This system would be much better understood by producers and could easily be administered by ASCS.

In closing, let me assure you of our support for a stronger farm program in 1991. We are convinced that it will be necessary to design the next program to operate at much lower cost; however, programs can be designed within such budget constraints that will be much more beneficial to the producer in the marketplace and, in the long run, also advantageous to the taxpayer.

Again, we want to thank the Chairman and members of your subcommittee for this opportunity to appear before you today. I will be pleased to answer any questions that you have concerning this testimony.

Senator **Pryor**. Thank you very much, and we will have your full statement at the appropriate place in the record. We always appreciate having you before this subcommittee and we certainly appreciate having you here this afternoon. You are always one who comes and, let us say, shells down the corn with us and we appreciate that, and putting in terms that we all understand and we are very grateful.

Mr. **Frazier**. We try, and we appreciate your interest, Senator.

Senator **Pryor**. Mr. Carroll Brunthaver is a member of the National Grain Trade Council, from Washington.

Mr. Brunthaver, we appreciate having you before the subcommittee.

STATEMENT OF CARROLL BRUNTHAVER, PRESIDENT, SPARKS COMMODITIES, INC., REPRESENTING THE NATIONAL GRAIN TRADE COUNCIL, WASHINGTON, DC

Mr. **Brunthaver**. Thank you, Mr. Chairman. I am very pleased to submit for the record this testimony developed by the leaders in the National Grain Trade Council. I will summarize very briefly for you some points that we think are important.

THE 1985 ACT IS VERY POPULAR AMONGST FARMERS AND THE GRAIN TRADE

First, the 1985 act is very popular amongst farmers and the grain trade. Net income is up, stocks are down, world course grain stocks at only 15.6 percent of the utilization, compared to almost 30 percent 2 or 3 years ago. Corn exports this year at 2.50 billion, compared to only 1.229 in 1985, so significant changes and improvement.

WE NEED TO CORRECT WHAT WE VIEW AS THREE FLAWS

The momentum is good, but we think we need to correct what we view as three flaws that can make U.S. agriculture even more productive and more profitable for farmers.

FIRST PROBLEM IS THE ARP'S

The first problem is the ARP's. The goal of the 1985 act was to get competitive worldwide by lowering the loan rates, which Congress did, but by the action of holding the ARP's high, we can make ourselves just as uncompetitive with these high ARP's and resulting short production and high prices than we can with high loan rates.

An example of what is happening is in the charts in the prepared statement,[8] which compare world production of cotton with U.S. production of cotton. The world is increasing—we are holding U.S. production down with our ARP's, and the same thing on oilseed production. Oilseed production worldwide is increasing dramatically, and yet we are holding our production down, and the same thing for wheat and feed grains.

We just feel that the administration has too much incentive to reduce the short-term budget outlays by raising the ARP, causing the market price to rise and, thus, decreasing the difference between the target price and the market price, saving money short-term, but creating tremendous competition as other farmers around the world expand their acreage at the same time we are cutting back ours, and that we view as a problem.

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[8] See pp. 304 to 308 for the charts.

PROGRAM RIGIDITY

Program rigidity—the chart on soybeans clearly demonstrates the problem, that our producers are interested in producing corn for the corn target price, rather than soybeans for the world market price, and that production has shifted dramatically to South America.

The rigidity problem can be corrected in any number of ways, perhaps. The triple base has been talked about, It had a lot of favor to begin with. We view it as sort of a half measure that really does not get the job done and the farmers really do not like it anyway.

The 10/25 provision allows farmers to plant soybeans on some corn land, but the producers still in that program, must consider the target price of corn versus the market price on beans, and he is still not given the flexibility that he needs.

The association recommends that you seriously look at the national cropland acreage approach, whereby we convert the bases and certain planted acreage into a farm cropland base and allow the farmer then to decide on his particular farm what crop or crops he can produce most efficiently and give him the freedom to do that.

The questions become, under that cropland base, how do you then make the deficiency payments to producers? They can make it on the acreage actually planted to program crops operation or they can be made on a fixed feed grain or wheat or cotton base, even though the producer plants that mix of crops that best fits his farming. The producer could get his wheat payment, even though he planted no wheat, or his corn payment, even if he planted no corn.

The next question is on ARP. On what do you base the ARP percentage, if we need an ARP? Again, you could base it on a percentage of the acres that he planted to corn. Or if it is determined that we have too much land in production, a percentage of that farm cropland base could be idled. Then the farmer could concentrate on that mix that will maximize his net income.

RESERVE POLICIES

The reserve and CCC release prices, again, I think need to be reexamined. Congress lowered commodity loans to get competitive, but then we find ourselves with a very high release price on the reserve and CCC stocks. We have used the generic certificates to sidestep the problem, but I think it is time to relook at that problem.

Thank you very much.

[The prepared statement and attached charts of Mr. Brunthaver follow:]

Statement of

Carroll Brunthaver
President
Sparks Commodities, Inc.

Representing the
National Grain Trade Council

before the
Subcommittee on Agricultural Production and Stabilization of Prices
Committee on Agriculture, Nutrition and Forestry
United States Senate

on the

1990 Farm Bill

September 21, 1989

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to have the opportunity to appear before you today to share with you the National Grain Trade Council's recommendations for the 1990 farm bill. I am Carroll Brunthaver, president of Sparks Commodities, Inc., which is headquartered in Memphis, Tennessee. I am a member of the Executive Committee of the National Grain Trade Council.

The Council is a national trade association whose regular members include grain exchanges, boards of trade, and national grain marketing organizations. The Council has a number of associate members representing a large cross-section of the grain marketing industry.

Council members cover the full spectrum of the agricultural industry. Our members include firms who handle bulk grains, the markets where the price risks associated with merchandising grain are hedged, transportation firms, and companies that process agricultural products into consumer-ready items we purchase on the grocery shelf. Council members and others in the food business, represent 17 of the 20 percent of the gross national product attributed to agriculture.

The agricultural infrastructure serving the United States is the most efficient and sophisticated in the world. From top to bottom, this system provides virtually any product, assuring the producer of receiving the highest competitive price possible, while providing consumers with the cheapest and safest food possible.

Council members want to see producers prosper and this goal can best be accomplished when demand for our products is growing. We want to foster an environment where all parts of the agriculture sector can work together to achieve this goal.

Our testimony today will cover an assessment of the 1985 Food Security Act, the current situation for feed grains, and our recommendations for the 1990 farm bill.

The 1985 Food Security Act

As the debate begins on the 1990 farm bill, much of the focus will be on the shortcomings of the 1985 Food Security Act (FSA) and how to refine that legislation into sound farm policy that can serve the nation's best interest over the long-term.

We commend this Committee and Congress as a whole for your many efforts in drafting the 1985 FSA. Congress passed that Act to bring U.S. agriculture out of its depression. At that time we were not competitive in the international marketplace. Artificially high loan rates were pricing the United States out of world markets. Congress made a fundamental change with the 1985 FSA by reducing loan rates toward market-clearing levels and adjusting target prices. The move toward market-clearing loan rates removed the artificial price floor on U.S. grains and, in combination with generic certificates and aggressive export programs, allowed this nation to again be competitive in world grain markets.

Agriculture has prospered with the improved economy and renewed competitiveness. Today, with the successes of the 1985 farm bill, the United States finds itself in a different situation which merits different policy steps. Market demand has changed dramatically from a period of stagnation to a period of growth. U.S. policies must now adapt to this changing situation to position farmers to capture the growth in domestic and world demand.

The Current Situation for Feed Grains

The world supply and demand situation for grains has changed rapidly from a period of burdensome stocks to a situation where world supplies of food and feed grains are the tightest they have been in a number of years. World demand for feed grains is strong and over the last three years consumption has outstripped production, resulting in dramatically reduced carryover stocks.

World stocks of coarse grains are expected to decline to about 126.6 million metric tons (mmt), or 15.6 percent of use at the end of 1989/90. The lowest comparable percentages from 1962/63 through 1988/89 are: 14.3 percent, 1970/71; 13.1 percent, 1972/73; 12.0 percent, 1973/74; 14.5 percent, 1974/75; and 14.6 percent, 1983/84.

World Coarse Grain Stocks (mmt)

	ending stocks	percent of utilization
current period		
1989/90 proj.	126.6	15.6
1988/89 prelim.	141.6	17.7
1987/88	213.1	26.2
1986/87	233.8	28.9
prior period		
1972/73	81.5	13.1
1973/74	80.6	12.0
1974/75	90.6	14.5
1975/76	94.9	14.7

World demand for coarse grains has grown at a brisk pace, rebounding by some 58 mmt since 1983/84. The growth in U.S. exports has been particularly robust, increasing by over 60 percent since 1985/86. The United States has enjoyed record corn sales to the Soviet Union this year of 750 million bushels which has boosted anticipated exports to 2.1 billion bushels, up from 1.2 billion bushels in 1985/86. Domestic demand has also been strong with record numbers of livestock on feed.

With the steady increase in demand and sharply reduced production last year because of the drought, U.S. stocks levels have been dramatically reduced. The carryover from 1985/86 of 4 billion bushels has been cut by more than 50 percent to an estimated 1.6 billion bushels at the end of the 1989/90 marketing year.

With this demand-driven environment, some flaws in the 1985 FSA have become very apparent: (1) current policies rely on supply management, (2) the rigidity of current programs denies many farmers the flexibility to take advantage of market opportunities, and (3) even when market opportunities are present, set-aside schemes required for budget reasons often preclude the United States from taking advantage of the situation.

It is very difficult in today's environment to justify continued reliance on acreage reduction programs (ARPs). Consumption has exceeded demand for each of the last three years and carryover stocks have been reduced by more than half. Acreage reduction programs have a number of negative effects which argue against their use:

1. they reduce farmer income,

2. they harm the United States' competitive position in world markets, and

3. they have become outdated as a policy tool.

ARPs Reduce Farm Income

While acreage reduction programs are often seen as a way to control supplies and stabilize prices, ARPs actually reduce farmer income by requiring that productive land be idled as a condition for program eligibility. For example, the 1988 corn ARP of 20 percent created an implicit tax of 40 cents per bushel. In other words, an average farmer could have received the same guaranteed income above variable costs with a zero ARP and a lower target price as with a 20 percent ARP and a higher target price. If the farmer had been allowed to produce on all his corn base instead of just the 80 percent, the target price could have been 40 cents lower -- $2.53 instead of the 1988 target price of $2.93 -- and the farmer would still have received the same guaranteed income as provided by the 1988 program. Said another way, without an ARP the corn farmer would have been just as well off with a target price of only $2.53.

In addition to reducing farm income, ARPs artificially increase per-unit costs for U.S. farmers. Fixed costs do not go away when land is idled. Instead, they must be spread over fewer bushels of production.

ARPs Lessen U.S. Competitiveness

In looking at the world supply and demand situation, it is easy to see that ARPs reduce the United States' competitive position in world markets. An analysis by World Perspectives Inc. shows that since 1979, the trend has been one of lower U.S. feed grain production and increased foreign production as our share of world production has dropped from 35 percent to

27 percent. During this period, U.S. production has fallen by 662 million bushels or 7 percent, while non-U.S. production has increased by nearly 4 billion bushels or 20 percent.

In looking at just the last five years, U.S. production has declined by over 2 billion bushels or 19 percent, due to the combined effects of a major drought and set-aside requirements. U.S. feed grain production peaked in 1985 at just over 11 billion bushels, and the estimate for 1989 production is down more than 2 billion bushels from that level. This contrasts sharply with production trends in competitor nations where production has increased by 788 million bushels since 1985.

The lesson is that the United States has acted as the world's shock absorber, bringing land in and out of production. In recent years we have idled land while competitor nations have continued to expand production, resulting in a lower market share for the United States. With its relative production and marketing efficiencies, the United States is the last nation that should be idling productive crop acreage. By relying on ARPs, the United States has willingly surrendered market share to our competitors.

Poor growing weather in the United States the last two years has compounded the effect of ARPs on our ability to produce to meet growing world demand. Crop supply and demand estimates that are prepared far in advance of the crop year do not take into account the possibility of drought or other adverse weather which may reduce production. Farm program decisions are often made assuming normal growing weather. Many long-term weather forecasters are expecting less than ideal growing conditions over the next three to four years, which could heighten the possiblity of short crops, particularly if land is also idled through ARPs. Given the low stock levels now expected, the combination of an ARP and poor growing weather in the next several years could raise the possibility of actual shortages.

ARPs Are Outdated

Philosophically, the Council believes that ARPs have become out-dated as a policy tool. ARPs have become a tool to limit farm program costs, rather than providing a benefit to producers. If too many acres are in production in the United States, programs should be built upon more competitive, rational land retirement programs. For example, the conservation reserve is now idling about 30 million acres, including roughly 9 million of the nation's most fragile corn acres. And 3.7 million corn acres have been enrolled in the 0/92 program for the 1989 crop year. The 0/92 program option gives U.S. farmers the choice of reducing production when it is in their economic interest -- not the federal government's.

The situation is a little different for soybeans and oats, where program rigidity has prevented U.S. farmers from responding to market signals. The problem of program rigidity is two-fold: crop-specific acreage bases prevent farmers from being able to shift from one crop to another without losing their eligibility for current and future program benefits; and the relationship among target prices for different crops has become distorted, resulting in relatively high subsidies for some and relatively low subsidies for others. This disparity among target prices encourages the obvious -- production of those crops that promise higher deficiency payments which overwhelm market signals for other crops.

Relatively strong market prices for soybeans, for example, have not brought about the increase in production which the market is signaling. Even when farmers could earn more from the marketplace by planting oilseeds, they continue raising wheat, feed grains, cotton or rice to protect or expand their acreage base. And to offset target prices available for these other crops, oilseed prices would have to rise to levels high enough to choke off demand.

However, price levels, along with U.S. policy actions, induce production elsewhere. Worldwide demand for vegetable oil and protein meal is strong and growing at the rate of four percent annually. But that demand is being met by competitor nations. Since 1979, U.S. oilseed production has fallen by more than a third. Perhaps the most tangible statistic is the acre-for-acre shift in the soybean industry from North America to South America. Between 1979 and 1988, U.S. soybean plantings declined by 12.5 million acres, while plantings in Brazil and Argentina rose by 12.5 million acres.

U.S. soybean processors have shut a number of plants because there are not enough U.S. soybeans to process. Meanwhile, foreign oils, including unprecedented shipments of European rapeseed and South American soyoil, have been used in the United States. Imports of soybeans themselves have been economically feasible within recent months.

Foreign oats already have become a staple in the United States. Despite oat prices reaching historic highs, U.S. farmers have found the program incentives for other crops better so they let 10-percent of their lands stand idle while they raise barley, corn or wheat. U.S. market demand has, in turn, been met by imports which have steadily increased. In 1980/81, the United States only imported 1 million bushels; in 1988/89, the nation imported 60 million bushels and potentially may have imported more had supplies been readily available.

The problems posed by the rigidity of current programs and other production restraints must be addressed if the nation is to serve rejuvenated domestic and world demand. As program rigidity limits the production of some crops and stock levels for other crops fall to historically low levels, the United States faces a fundamental policy question -- does the nation intend to produce adequate supplies to meet growing world demand or will that demand be met by competitor nations?

Recommendations for the 1990 Farm Bill

As Congress develops a new farm bill, we urge that this effort be guided by one test: That it be the best long-term farm policy for agriculture and the nation.

The National Grain Trade Council recommends the following principles for a healthy and prosperous U.S. agriculture to guide future farm policy:

1. **Promote competitiveness in all of U.S. agriculture.**
2. **Provide farmers more freedom to make their own planting decisions and to rely on market signals which will enhance their competitive position in meeting world and domestic demand.**
3. **Ensure that U.S. policies contribute to real world demand growth.**

To achieve these goals, the Council recommends the following policy steps.

Program Rigidity

To provide farmers the freedom to make their own planting decisions and to rely on market signals which will enhance their competitive position in meeting world and domestic demand, the Council recommends either restructuring farm programs or moving to a modified Normal Crop Acreage approach.

We believe the best policy approach would be to restructure farm programs to break the link between program costs and crop production. Market signals can best guide a farmer's planting decisions; government programs should provide assistance that is not tied to current or future production levels.

A reasonable way to make the income support program neutral would be to substitute a payment relating to historic planting patterns in place of deficiency payments linked to current production. Farmers should have the assurance that they will receive a known, predictable payment regardless of what they plant.

These steps would allow farmers more freedom to make efficient production decisions and compete in world markets. This approach will also allow the nation to employ fully the comparative advantage it has in agriculture -- positioning itself to capture a larger share of a growing world market.

Another acceptable approach is a modified Normal Crop Acreage (NCA) which would represent an improvement in long-term policy compared to the commodity-specific rigidity found in current programs. We would envision a modified NCA with the following features:

1. A whole farm crop base, composed of the sum of the previous crop specific bases.

2. A target price structure much the same as now in place, but with deficiency payments based on an historical average, and the farmer allowed to plant the acreage as he wished. Farmers would have assurance they would receive their traditional income protection regardless of whether they produced a given crop.

   For example, assume producer Jones now has total crop land of 300 acres, which includes 100 acres of corn base, 100 acres of wheat base, and 100 acres of soybeans. With this NCA approach, he could have the freedom to plant any crop mix he wishes based on his analysis of market demand, but would continue to receive deficiency payments on the corn and wheat base as if he had planted his acreage consistent with his original base.

The Council believes this approach has a number of attributes: a farmer's planting decision would be independent of payments; the current bias to control production for budget, not market reasons, would be eased; payment levels could be as generous as the Federal budget would allow; and income protection could vary, as it does now, in relation to market prices.

We believe either restructuring farm programs or a modified NCA approach would also help address environmental concerns. If income supports are not linked to production, then artificial incentives that encourage farmers to apply more fertilizer and agricultural chemicals or convert more land to production are removed and, in addition, sound crop rotation practices are encouraged. Production incentives would be based on expected returns from the marketplace, not prices set by the government.

Competitive Loan Rates

To maintain the competitiveness of U.S. agriculture over the long-term, it is essential to keep loan rates below market-clearing levels. Although market prices have been relatively strong in recent years, it is important not to lose sight of the need to keep loan rates below market-clearing levels and to continue working toward the formula set in the 1985 legislation.
We would further recommend that loan floors be eliminated.

Reserve Policies

The Council believes that reserve policies should be modified to provide more flexibility. We recommend that:

- Release levels for the Farmer-Owned Reserve (FOR) be eliminated. Farmers should be allowed to choose when reserve grains are marketed. Such a change in the FOR would prohibit the reserve from creating an artificially tight supply situation. Mechanisms should be added to the reserve to ensure that storage payments to farmers would cease at some price level.

- Resale prices for Commodity Credit Corporation grain stocks be set at more appropriate levels. The resale price for soybeans should be set at 105 percent of the effective loan rate, plus carrying charges; the resale price for wheat and feed grains should be set at 115 percent of the effective loan rate, plus carrying charges. CCC, when selling its stocks into the market, should do so in a manner that facilitates orderly marketing.

Export Subsidies

The Council is concerned that export subsidies become institutionalized over the long-term. We would oppose that. We recognize the Export Enhancement Program (EEP) is seen as playing a critical role in restoring the competitiveness of U.S. wheat in world markets. While EEP may be valuable in the future to make the United States competitive in world markets, we believe the greatest value for this program at this stage is as a tool for negotiations with the European Community.

In light of a fundamentally different world supply and demand situation, we recommend EEP be revised to: (1) maximize the benefits to U.S. agriculture; (2) consistently maintain the competitiveness of U.S. products; and (3) not restrict sales or force them to be made in the near-term. We further recommend that EEP generally be streamlined to reflect market operations more closely and to reduce the government's day-to-day control over the marketplace.

Trade Barriers

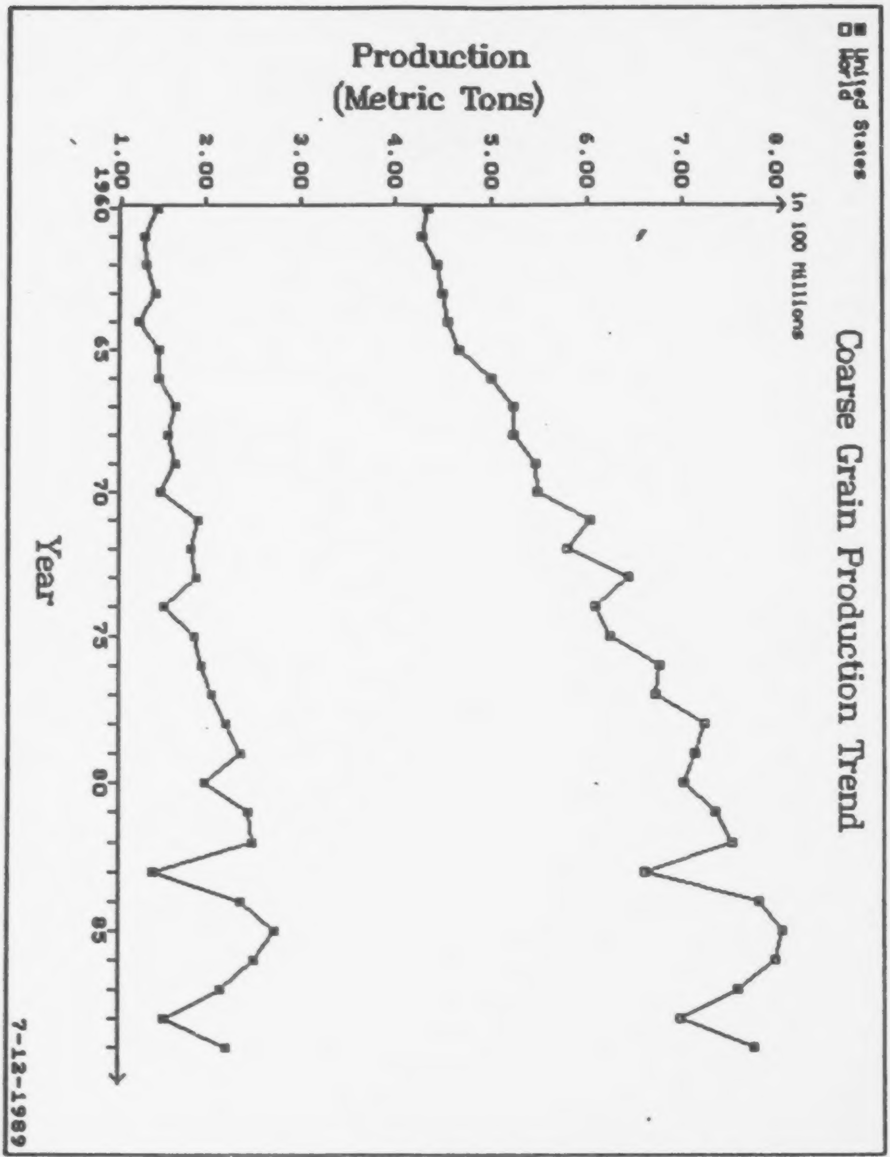
For U.S. agriculture to be competitive in and have access to world markets, we must work toward a world-wide reduction in trade barriers. We support the Administration's effort in the General Agreement on Tariffs and Trade to achieve this goal.

Farm Program Analysis

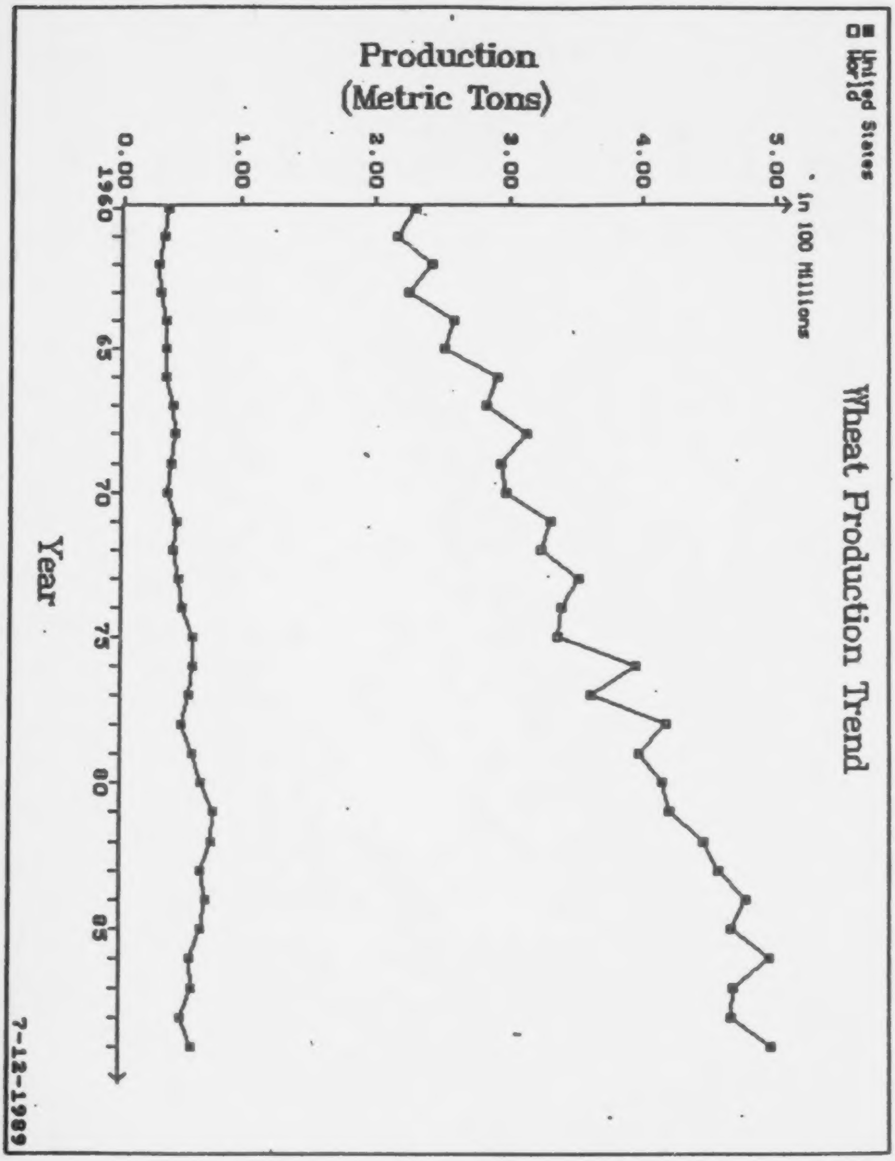
The Council also recommends that the impact of farm programs be analyzed thoroughly. We believe the Department of Agriculture should prepare an Impact Statement for each crop program that would include the estimated impact on farm income, production, farm suppliers, rural communities, food prices, and the gross national product for each program option under consideration. The Impact Statement, in addition, should analyze the affect of program changes on other crops. A zero acreage reduction program should always be one option.

Summary

Mr. Chairman, the Council believes the 1985 Food Security Act recognized the importance of competitiveness in world markets. We should now refine our policies to help us achieve this goal. We believe that growing world demand calls for greater planting flexibility and less reliance on acreage reduction programs. We believe our recommendations would position U.S. producers to meet growing domestic and world demand and thus offers better prospects for farm income into the 1990s.



(Source: Economic Research Service, USDA)



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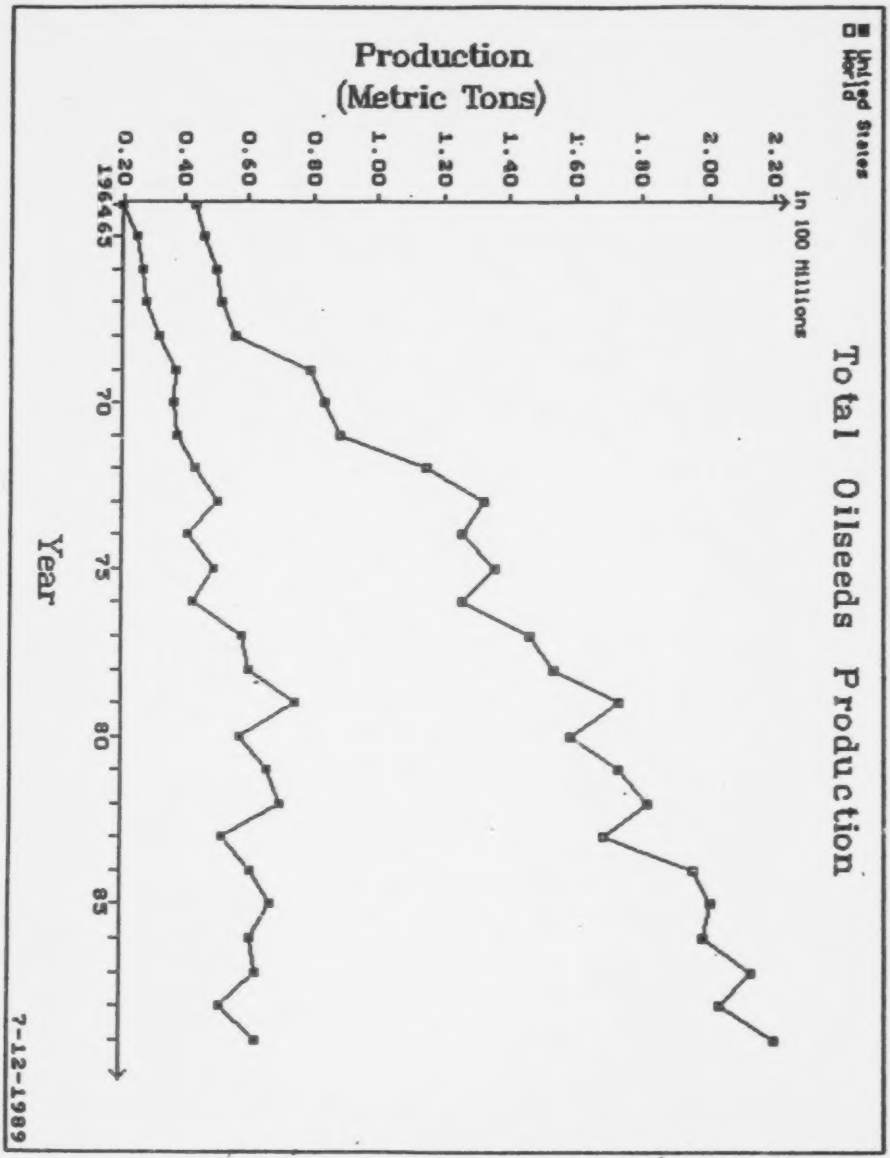

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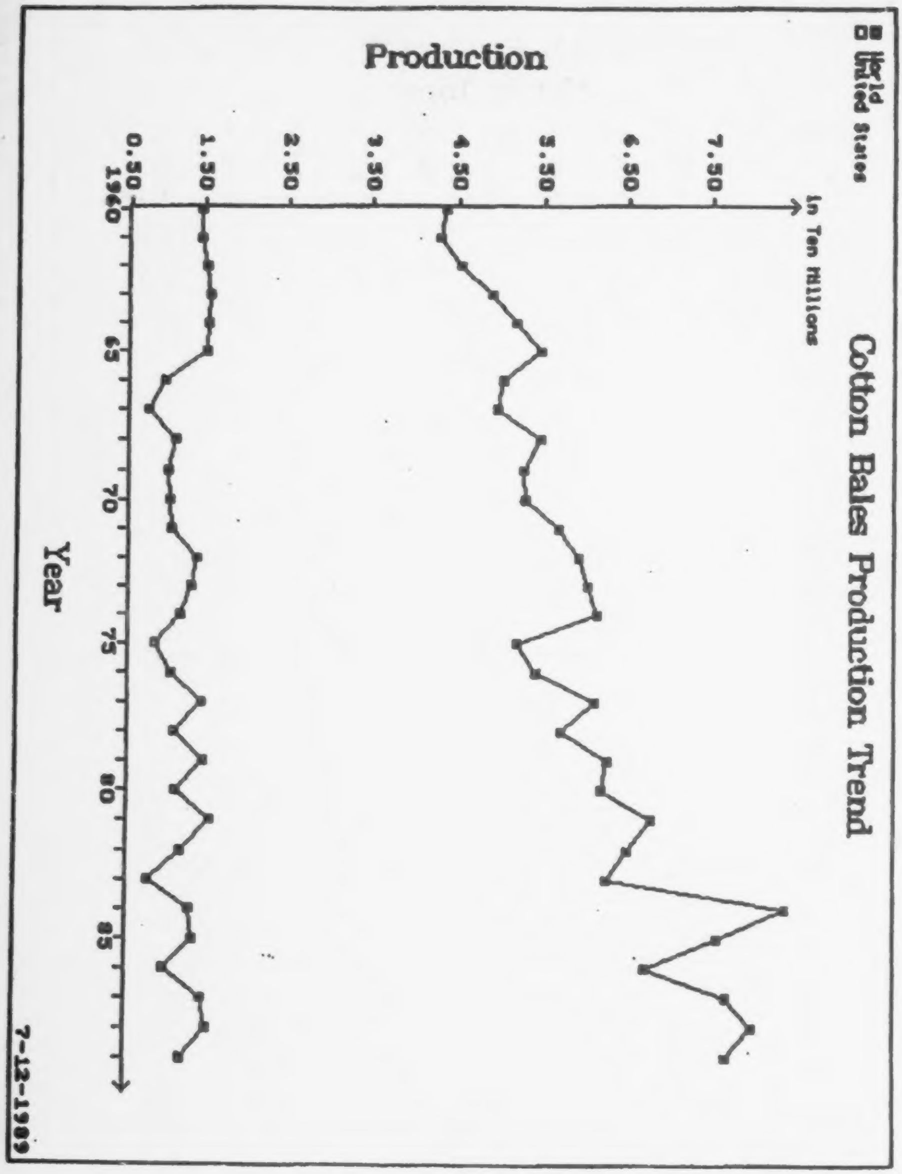

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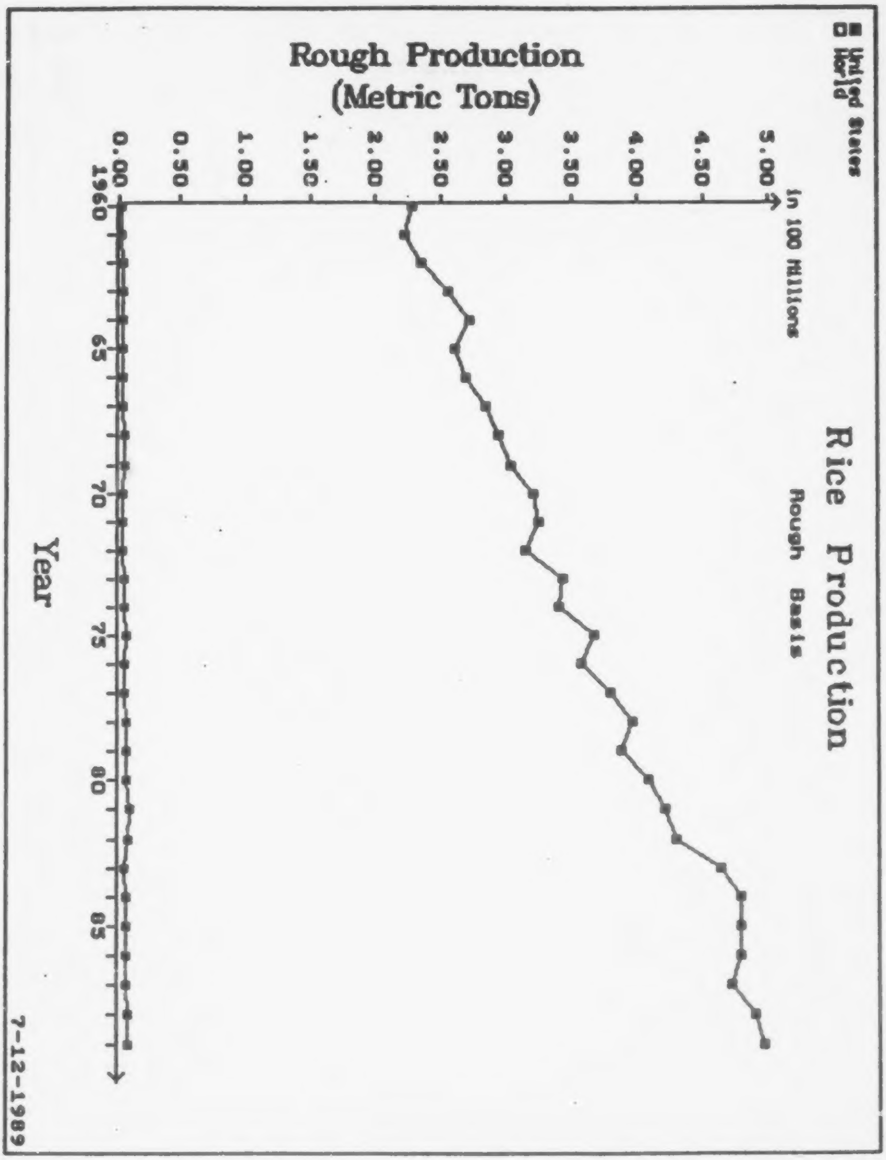

(Source: Economic Research Service, USDA)

Senator **Pryor**. Mr. Brunthaver, we are going to put your prepared statement in the record. You have come all the way from Memphis for this very short hearing. I hate to have you travel so far and speak so short, because we appreciate you coming before the subcommittee.

Let me ask you a question. I infer from what you said that the grain traders are doing pretty well right now, the grain traders.

Mr. **Brunthaver**. No, I did not say that.

Senator **Pryor**. Oh, I'm sorry.

Mr. **Brunthaver**. I said net farm income is near record high. Grain trade is doing fine.

Senator **Pryor**. You said the grain trade, I'm sorry, I thought you said the grain traders. I was going to ask you how the grain farmers are doing, because you have to have those grain farmers out there healthy to keep your part of the industry healthy.

Mr. **Brunthaver**. I think they basically like the 1985 act. Net farm income——

Senator **Pryor**. You think the farmers do or——

Mr. **Brunthaver**. The farmers do, yes.

Senator **Pryor**. Well, we find support for some areas. In fact, a lot of times people say just redo the 1985 farm bill and call it quits. I hear a lot of that. Then they come up and say there are one or two little exceptions, and then they start making all—it is like writing a tax bill, I am on the Finance Committee, and everybody says, well, let us have a flat tax, that would make it simple and we would not have to deal with the Internal Revenue Service, and we could just have a good life, and then the first group are the homebuilders and they say we have to have a mortgage deduction for home mortgages, and then someone says, well, medical—and before you know it, you have 7,000 exceptions and you have a 2,000-page Tax Code.

So, it is not going to be easy to do the 1990 farm bill. I appreciate the graphs that you supplied the subcommittee, Mr. Brunthaver, and also your statement, which will be placed in the record.

Gentlemen, I wonder if there would be any concluding comments that any of you might like to make. I am getting ready to adjourn the subcommittee. I have to go to the floor, but any further comments we would appreciate very much.

[No response.]

Gentlemen, thank you all very much. The subcommittee is adjourned.

[Whereupon, at 2:49 p.m., the subcommittee recessed, to reconvene at 9:53 a.m., Thursday, February 1, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

PREPARED STATEMENT OF THE NATIONAL TURKEY FEDERATION, RESTON, VA, SUBMITTED BY EDDIE ALDRETE, DIRECTOR OF PUBLIC AFFAIRS, NATIONAL TURKEY FEDERATION

Mr. Chairman and members of the subcommittee, I welcome this opportunity to provide you with information that will be useful in the context of the 1990 farm bill. The National Turkey Federation (NTF) represents most of the Nation's turkey growers and processors and accounts for more than 95 percent of the Nation's commercial turkey production.

The turkey industry has recently experienced steady growth and is on the verge of even more rapid growth as health conscious Americans continue to change their eating habits to include in their diet, low-fat, high protein products such as turkey. During each of the past 2 years, per capita consumption increased 10 percent. U.S. turkey production will increase about 5 percent in 1989 and 7 percent in 1990. On a global level, world turkey meat production in 1989 is forecast at 3.3 million tons, up 4 percent from last year.

The availability of convenient turkey parts is also attractive to "people on the go" who prefer pre-cut, pre-packaged, ready-to-eat products. Thirty years ago, 90 percent of the turkey consumed in this country was in the form of whole birds during November and December. Today, approximately 60 percent of the turkey consumed occurs during the other 10 months of the year. Record purchases of turkey by the USDA for the Commodity Distribution Program also reflect the move to lower fat in the School Lunch Program.

Traditionally, the turkey industry has operated with little or no assistance from the Federal Government. Unlike the beef and pork industries, the turkey industry does not participate in a federally mandated "check-off" program and there is a consensus among NTF members that this is too much government involvement. However, government involvement in other sectors of agriculture has a direct impact on the operations and profitability of our industry. Feed costs account for approximately 50 percent of the total cost of production. Turkey production costs (ready-to-cook basis) rise about 1 cent for every $.025 per bushel increase in corn prices or for every $19 per ton increase in soymeal prices. Alternatively, turkey production costs increase .5 cent per pound for every 10-cent increase in corn prices or .7 cent per pound for every $10 increase in the cost of soybean meal.

During the farm bill debate, the Agriculture Committee will consider a number of issues including flexibility to allow farmers to plant more soybeans. NTF urges the committee to thoroughly study the short term price implications of various alternatives and the impact on the production of corn and other feed grains.

In the area of food safety, one must remember that the cyanide laced Chilean grape incident was a random criminal act which caused a great deal of concern over our national food supply. Shortly after that, came the alar in apples scare. The hysteria that followed led the public to perceive our food supply was unsafe. The truth is that Americans enjoy the safest most wholesome food supply in the world.

Because the food safety area is of growing concern, we strongly believe that any and all aspects of the issues be dealt with separate and apart from the farm bill. Legislative decisions should be based on sound scientific evidence and not emotion resulting from public perception. NTF strongly opposes any attempt to place arbitrary standards on microbiological or chemical contaminants. We must first conduct necessary research to be able to identify, measure and control contaminants before we can apply any type of standard. NTF supports legislation that is solely dedicated to researching the cause and transmission of foodborne contaminants.

As consumer eating habits change and turkey consumption continues to rise, we must all work together to ensure the wholesomeness of food products, to maintain the safety of our national food supply and to make changes and improvements where and when necessary.

PREPARATION FOR THE 1990 FARM BILL

Oilseeds

THURSDAY, FEBRUARY 1, 1990

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:53 a.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Pryor, Heflin, Conrad, Baucus, Kerrey, Lugar, Cochran, McConnell, and Bond.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Ladies and gentlemen, our hearing will come to order.

We have several witnesses this morning. We will ask a time limitation on opening statements of 5 minutes. There will be several other members of the subcommittee and the full committee who will be with us.

As we begin the hearing process and the discussion of the 1990 farm bill, it is very clear that, in this town, flexibility has become the buzzword. Certainly, oilseeds will be at the very core of this very heated debate. Whether or not we need more flexibility, and if so, how to best achieve it will be a difficult question. For all the questions that flexibility raises today in the 1990 farm policy, there are some definite answers:

One, additional flexibility should serve a need and not to provide necessary incentive.

Two, we should take into account our national averages, with special attention to regional differences in costs of production and average yields when attempting to design any plan that would enable more flexibility.

Third, the U.S. Congress, the USDA, and America's countryside are the places to find solutions to these particular questions, and not necessarily in Geneva.

Today, we find ourselves at a crossroads in oilseed policy. As world demand grows, U.S. production has decreased. In soybeans alone, we have seen our production drop 15 percent in the past 10 years. With this reduction in U.S. output, we have witnessed a loss

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in market share as well. Granted, this is serious. For someone such as I, coming from a State where the livelihood of more than 180,000 Arkansans directly depends on poultry, this is naturally a very grave concern. Of course, we cannot ignore the price of beans today. We cannot ignore the most recent carryover of 335 million bushels in spite of a less than cooperative Mother Nature. We cannot ignore the effect these facts, combined with increased production, will have on soybean prices.

I don't think there's any secret, nor should it be, that anyone interested in soybeans of my support of some standing, long standing, of a marketing loan as a means of support as well as a tool to increase U.S. competitiveness in the world market should come as a surprise to no one who is interested in soybeans. I still believe, and this is my own personal belief and not that of the committee, that a marketing loan might be our most effective way to achieve the needs of the U.S. soybean industry—and perhaps the entire oilseed industry as well.

Of course, I understand that opinions vary on this, as they do on the whole subject of flexibility, yet, I do not think that we are so far apart that a satisfactory solution cannot be reached. I believe we can find that solution. And that is what this hearing is about today. It is to begin that debate, to begin that dialog, and to share differing opinions on how we might achieve this goal.

This is why we are here. Without delay any longer, let us begin the hearing.

Let me call on our distinguished friend, Senator Lugar of Indiana.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. I appreciate your strong statement and your leadership throughout the years in this issue and so many others before our committee.

I would simply add that this is an important hearing because the 1985 farm bill will have a profound effect on United States' oilseed markets and production of not only soybeans but the other oil crops, such as sunflowers and canola. We will hear more about those today as a part of our hearing.

The farm bill's impact unfortunately has not always been positive. The basic problem is well known: Despite high prices in growing demand, U.S. farmers have not expanded acreage as we would have expected. The most important reason for stagnant or shrinking oilseed acreage is that farmers who plant more oilseeds lose deficiency payments for this year, and lose some rights to deficiency payments in future years as well.

This lack of flexibility in current farm policy has hurt our farmers by forcing them to forfeit market share in a growing world market. It has hurt the oilseed processing industry, which has seen 22 processing plants close in the last 10 years, thereby exporting jobs, principally to South America.

However, the lack of flexibility has additional costs. By encouraging monoculture and discouraging crop rotation, it hurt the environment. For example, an Iowa study found that farmers who grow continuous corn incurred $21 per acre additional costs compared to a corn/soybean rotation. And $14 of this was nitrogen and pesticide cost.

Monoculture also reduces yields, including yields in Southern States where inflexible programs sometimes lock some farmers into continuous soybeans.

My own judgment is that we will not solve the problem of the soybean industry simply by raising soybean subsidies to match those of other crops. World oilseed demand is strong, and it should provide good opportunities for farmers, if conflicting signals from the other crop programs can be neutralized. The best way to do that is to freeze the acreage on which deficiency payments are made. That is proposed in my bill, Senate Bill 1926 (Agricultural Competitiveness and Planting Flexibility Act of 1990, some provisions included in S. 2830), so that these payments would not be reduced just because the farmer chose to plant soybeans or another oilseed crop on base acreage rather than cotton or corn.

I also realize, and I want to state this at the beginning of our hearing, that there are some farmers who grow only soybeans. And I am ready to work with my colleagues, and especially the distinguished chairman of this subcommittee, to try to address this problem, which is an important one, especially in the South, as long as we are mindful of the overall budget constraints under which we are operating.

I thank you, Mr. Chairman, for the opportunity to make this statement.

Senator PRYOR. Senator Lugar, thank you. Thank you for your fine statement and also your participation this morning.

Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman.

I want to commend Senator Leahy, chairman of the Agriculture Committee, and Senator Pryor, chairman of the Subcommittee on Agricultural Production and Stabilization of Prices, for scheduling this important hearing.

Senator Pryor has taken an active leadership role on the issue of oilseeds the entire time I have been in Congress and long before that as well. His home State, Arkansas, much like my home State, North Dakota, has lost thousands of acres of oilseeds production. In fact, as I understand it, Arkansas has lost about 1 million acres of soybean production in the 1980's at the same time North Dakota was losing over 1 million acres of sunflower production. The losses for the Nation as a whole should send a very clear signal. Those losses total around 4 million acres of sunflowers and over 12 million acres of soybeans in the 1980's.

Much of these losses can be attributed to heavy foreign subsidies. In the case of the European Community, our competition has received extraordinarily high price supports. EEC price guarantees are over $15 a bushel on soybeans and over $28 per hundredweight on sunflowers. These compare to current market prices of about $5.50 per bushel for soybeans and $9.65 per hundredweight for sunflowers. In other words, EEC subsidies are running about triple current market prices for both sunflowers and soybeans. Needless to say, EC oilseed production has expanded rapidly under these production incentives, reducing U.S. markets.

In addition, policies of South American countries, in conjunction with the U.S. loan rate program, have expanded oilseed production in Brazil and Argentina. Clearly we cannot allow our domestic industry to continue to decline while others expand.

My State offers a clear example of the impact of these trends. North Dakota farmers grow several oilseeds, including sunflowers, soybeans, and canola. However, the loss of sunflower production has resulted in the conversion of the sunflower crushing plant at Velva, North Dakota, into a canola crushing plant. Unfortunately, most of the canola is imported from Canada. Canola can be grown in the Plains States and the South, yet we import the equivalent of 500,000 acres because farmers can obtain neither income protection nor crop insurance for canola.

The Senate Agriculture Committee and the administration face several hard realities. First, it is very clear that consumers want light oils which can be derived from corn, canola, soybeans, and sunflowers. Second, farmers need more flexibility in order to respond to consumer needs and environmental requirements. Finally, and this is very important, flexibility without income stabilization will not work. Farmers need some stability in income.

In closing, Mr. Chairman, I would like to commend the American Soybean Association for coming up with an innovative program idea to start the debate. I, for one, am committed to working with the other members of the committee and the administration in developing an oilseeds program which gives farmers needed flexibility while staying within a reasonable budget.

Finally, Mr. Chairman, I want to welcome Floyd Anderson, president of the National Sunflower Association from Brocket, North Dakota. It is good to have you with us, Floyd.

Thank you, Mr. Chairman.

Senator PRYOR. Senator Conrad, thank you for your statement and also your long time involvement in these issues. We all look forward to working with you as we go through these questions trying to find some answers.

Senator Kerrey.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Mr. Chairman, I just want to say very briefly that yesterday when we met with Ambassador Hills, she indicated that she was going to recommend that we certify that sufficient progress is being made in the GATT negotiations so that marketing loans would not have to be implemented.

I think it is very important, and I told Ambassador Hills this, and I believe it sincerely, that we make certain that, as we put our farm bill together, that the message goes out to our competitors that we intend to compete, not only by making sure that we maintain our competitive advantage with research efforts here at home, but that we come prepared with EEP and with targeted export assistance sales to compete, where necessary, against subsidized sales by our competition. We simply must do that. Otherwise the message will be that we are not going to be effective competitors. It is necessary, it seems to me, for us to do that.

My attention, Mr. Chairman, during these proceedings as it relates to soybeans will be to attempt, as Senator Conrad said, to focus on the requirement for flexibility in our farm programs. I personally like the normal crop acreage system that was used in the 1977 farm bill. I know of similar proposals that have been made, and it seems to me one of the immediate questions that has to be answered, and must be resolved, is the conflict that will exist between soybeans and corn. We need to determine what course of action we're going to take to resolve what appears right from the start to be a real conflict in determining appropriate support levels for those crops.

If we can resolve that, as I think we can, without having the growers themselves suffer, then I believe that the farm bill of 1990 will provide real flexibility and give the producer, the farmer the kind of flexibility that they in fact are asking for so that they can farm according to what they want to do, not just according to the dictates of the ASCS Office.

Again, I appreciate your leadership in this matter. I know that you understand the oilseed program extremely well, and I think that is going to be very helpful.

Senator PRYOR. You are presuming a lot, but thank you. [Laughter.]

Senator KERREY. Well, I am not actually presuming. You have the disposition, I think, that is going to be important to resolving the conflicts that are always there between the various grower organizations. In the absence of an administration that is willing to submit a farm bill in 1990—and perhaps I have to turn to the distinguished Senator from Indiana to find out when the last time it was that a farm bill was not submitted—it is going to put pressure upon us to resolve these conflicts with minimal acrimony.

I am very pleased that you are going to be leading this effort because I think that is going to make it a bit easier for us to get the job done.

Senator PRYOR. Senator Lugar is going to present the administration's farm bill at 10 o'clock if you want to——

[Laughter.]

Senator KERREY. Are you? [Laughter.]

Senator LUGAR. No.

Senator PRYOR. Senator Heflin from Alabama.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. Well, I am glad we are having these hearings. We have some differences as to cost of production, and a break-even point in certain sections of the country. And this causes, sometimes, some problems.

We went in to draft the bill, and we moved toward some flexibility in allowing crops, soybeans to be planted on corn property. But we put in that the Secretary, in accepting bids, had to calculate what he might think the production of Argentina, Brazil, other places would be. And that in calculating that, plus the world price, he should endeavor to see that the price of soybeans did not go below 115 percent of loan rate.

If that had not been put in it, you would be selling soybeans today for about $4.75 a bushel. And I think it is something to be considered relative to overall programs, policies and what the price of soybeans may be. So I think it just needs some careful consideration before we make definite decisions on moving all foreign policies.

And I will be interested in hearing the testimony today.

[The prepared statement and questions of Senator Heflin, and the prepared statements of Senators Baucus, Cochran, and Bond follow:]

PREPARED STATEMENT AND QUESTIONS OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Thank you Senator Pryor for this most important farm bill hearing. I don't think any hearing on soybeans would be complete without discussing the break-even cost of beans and the importance of price in determining farm policy with respect to soybeans and I look forward to frank discussion of the effects price among our soybean panelists.

If we were to introduce legislation to increase a farmer's flexibility in planting alternatives to meet anticipated market demand, what crops should be included to allow Southeastern (Alabama) farmers optimum market opportunities and what problems might be created for producers in the Southeast?

PREPARED STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Mr. Chairman, I want to thank you for holding this hearing. It gives us the opportunity to discuss how best to promote the planting and production of alternative crops such as rapeseed, sunflower, mustardseed, and safflower.

I want to talk specifically about rapeseed.

Rapeseed, as I am sure you are aware, is the seed from which canola oil is produced. This oil, according to scientific accounts, is lower in saturated fats than any other oil. In plain English, this means that canola oil is healthier for us to consume than all other oils.

In addition to its health benefits, this oilseed is an environmentally sound alternative to planting wheat. Its roots run deep and thus are more drought resistant and help in the struggle to control saline seep.

In 1989, within the United States only 70,000 acres were planted in rapeseed (4,000 of that in Montana). We were forced to import 440 million pounds of rapeseed!

Why, you ask, did U.S. farmers produce such a small amount of this seed? Well, under the current farm bill this oilseed is a nonprogram crop. If a farmer decides to plant rapeseed on a portion of his/her base acres then he/she will lose that portion of base acres as far as program payments is concerned.

There is essentially a disincentive to growing alternative oilseeds built into the farm program! This does not sound like a reasonable agricultural policy to continue!

I intend to work toward creating flexibility in the 1990 farm bill so that good alternative crops such as rapeseed can be grown and processed domestically without farmers jeopardizing their farm program participation.

There is another side to this issue—rural development!

Recently, a Canadian company agreed to locate a canola refinery in Butte, MT. This plant could create 100 new jobs! Creation of those jobs has a tremendous impact on the economy of a community like Butte.

At a time when the rural lifestyle is struggling to survive it is imperative that operations such as this canola refinery be given every opportunity to develop and become successful. This plant is vital to the well-being of the entire community.

I pledge to do whatever is necessary to provide small companies the opportunity to grow and develop in the rural environment. Everybody wins when a new industry is successful!

Finally, Mr. Chairman, I want to welcome the witnesses to today's hearing and very much look forward to hearing their presentations. I do hope they will be able to advise the committee as to how best to create the needed flexibility in the 1990 farm bill so that farmers can be encouraged to grow these valuable oilseeds.

PREPARED STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Mr. Chairman, I join you in welcoming our distinguished witnesses. I look forward to hearing the comments and testimony from such an important commodity group as oilseeds as we prepare the 1990 farm legislation.

Soybeans are produced on nearly 6,500 farming operations in the State of Mississippi. Approximately 40 percent of these operations receive a majority of their farm revenue from soybeans. Mississippi's production in 1989 totaled 40 million bushels with a farm value of $240 million. This translates into a total estimated economic impact on Mississippi's economy of nearly $630 million. So, soybean production is extremely important to Mississippi.

Mississippi soybean acreage and production peaked in 1979 with 4.1 million acres harvested and a crop of 119 million bushels. Between 1979 and 1989, soybean acreage declined by 50 percent, dropping to 2 million acres. During the 1980's State average yields ranged between 16 and 27 bushels per harvested acre. In 1989, yields averaged 20 bushels per acre. Although State yields have not trended upward, Mississippi producers have placed nearly 750,000 acres in the Conservation Reserve Program. The majority of this acreage was in soybean production during the early 1980's. Mississippi producers have used current farm policies to become more efficient by utilizing their most productive acreage, and they are committed to long-term soybean production.

I am concerned about the current trend in U.S. soybean acreage, increased foreign competition, and the drop in our export shares of soybeans and soybean products in world markets. I am, however, just as concerned about the impact of unlimited planting flexibility aimed at increasing soybean acreage without adequate income protection. For those producers who rely upon soybeans as their primary source of income, any significant increase in acreage could have a detrimental impact on soybean prices—and therefore income.

It is my desire that we can work as a committee to develop a soybean program in the farm bill which will address the need for planting flexibility along with adequate income protection for our Nation's oilseed producers.

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, it is a pleasure to join you this morning to discuss an industry of tremendous importance—oilseeds. Oilseed policy may be the most significant failure of the Food Security Act of 1985. I remain very concerned that continuation of current policy will send our soybean industry south—not the Southern United States, but South America.

Soybeans remain the largest cash crop in Missouri—worth over $800 million in 1988—about 70 percent of which was shipped overseas.

Since joining this committee in 1987, I have worked with my colleagues on many difficult oilseed issues. I remember fondly the debate over a $5.02 marketing loan. Most recently, the members of this committee worked hard to pass a national promotion program for soybeans.

Earlier this week I was in Columbia, Missouri and spoke to the Missouri Soybean Association annual meeting. They are very concerned about the future of their industry and have worked hard to develop a plan which will ensure long-term viability.

As we work to develop appropriate oilseed legislation, we have to recognize important regional issues—issues which we can overcome if we work together. I commend the American Soybean Association (ASA) for their efforts to create such a program. We often criticize organizations for telling Congress they need something new, but offer no ideas. With ASA this has not been the case.

As far as cost, there is no escaping the tough budget times that lie ahead. However, I believe we should recognize the national importance of a viable oilseed industry and develop an appropriate program. Cost will be a factor—but there are many other factors.

I have examined ASA's graduated equity loan and several other proposals. I am pleased that Dr. Abner Womack at the Food and Agriculture Policy Institute at the University of Missouri has agreed to analyze several different program options. This will make it much easier to compare the various proposals.

Dr. Gardner, I am pleased you're with us and look forward to hearing USDA's thoughts on this issue.

Senator **Pryor**. Thank you, Senator Heflin, and also thank you for your long time involvement in this issue.

Our leadoff hitter this morning is Dr. Bruce Gardner, Assistant Secretary for Economics.

We are going to try to limit our statements this morning, Dr. Gardner, to 5 minutes. If you have something momentous, we might give you 6 to 7 minutes, being you are the first witness.

We look forward to your statement, and we are here to receive your wisdom.

Welcome to the committee.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Dr. **Gardner**. Thank you very much, Mr. Chairman.

I am pleased to appear before you today to discuss soybean issues in the context of the next farm bill.

HIGHLIGHTS OF THE SOYBEAN SITUATION TODAY, ITS EVOLUTION OVER THE PAST FEW YEARS AND WHAT THE PROBLEMS ARE THAT WE ARE CONFRONTING

I will not try to go through very much detail at all of what is in the written testimony that has been sent up. But let me just say a few words about the highlights of the soybean situation today, its evolution over the past few years and what the problems are that we are confronting.

SOYBEANS, OVER THE LONG TERM, A SUCCESS STORY

I think if you look over the longer term what strikes you about soybeans is what a dynamic and success story of a crop soybeans have been. In 1950, we had about 200 million bushels of soybeans; by 1980, we were in the neighborhood of 2 billion of soybeans produced in a normal year. We doubled our output during that period every decade. It is a really tremendous rate of growth and one that perhaps would inevitably slow up at some stage.

OTHER COUNTRIES IN THE SOYBEAN ARENA

Now, since the 1960's, what we have seen is other countries, particularly Argentina and Brazil, taking off in the soybean arena in the same way, roughly doubling every decade. There are natural reasons for that. It is a profitable crop. These countries have land that is suitable for that kind of crop. Their costs of production have not been too different, in some cases even somewhat lower than ours, in Argentina, but they have entered these markets roughly on a competitive basis.

I THINK THE PROBLEM THAT WE ALL SEE IN SOYBEANS IS WHAT HAS HAPPENED SINCE 1980

I think the problem that we all see in soybeans is what has happened since 1980. We have had stagnation in our soybean output, as several of you have mentioned. This is not a matter of yield. Our yields have kept going up at about three-tenths of a bushel per year. But our acreage is actually down a few million acres (acreage concentrated in the Delta and the Southeast).

SOYBEAN EXPANSION IN ARGENTINA AND BRAZIL

Meanwhile Argentina and Brazil, in particular, have expanded their soybean production and acreage quite rapidly.

QUESTIONS

The economic question is why has this occurred? What are the fundamental forces behind it?

ANSWER

As I said, I think part of the answer is a natural development, that these countries had land to be developed, they looked for the best opportunities for crops to grow, and soybeans have looked good. That explains in part why they have expanded. It does not explain though why we have contracted. When we look at the reasons why we have contracted, that is where we get into policy questions.

CORN PROGRAM

Certainly, the corn program being attractive is one element of this. Even when the market prices suggest that a switch into soybeans might be a good economic move, one is reluctant to do it because you lose your deficiency payment and lose part of your corn base. So that if you want to go back into corn at a later time, you would have to overplant and drop out of the program in order to do so.

This problem has been part of the story. But in the Delta and Southeast, there has to be more to it than that. We have seen some of the land that was in soybeans going into the CRP, into cotton, and partly in reduced double cropping with wheat. All these things have played a role.

WHAT ARE THE POLICY ADJUSTMENTS THAT WE WILL ALL BE TALKING ABOUT THIS SPRING

And finally I guess I should say a little bit about what are the policy adjustments that we will all be talking about this spring. The keyword is flexibility, as several of you have mentioned—incidently in all the statements that you, Mr. Chairman, and Mr. Kerrey, all of you have made seems to me to have been reasonable ones and provide a good basis for discussion on oilseeds in the 1990 farm bill.

FLEXIBILITY AND HOW DO WE ACHIEVE THAT

The keyword is flexibility, and the question then is how to achieve that. We have, of course, made some steps along those lines with the 10/25 program last year, and 0/25 this year that will let farmers plant soybeans without losing their base, but still giving up deficiency payments. How much further we will go in the flexibility line is going to be one of the key issues that we will be discussing.

Let me just stop there.

Senator **Pryor**. Your full statement, Dr. Gardner, will be placed in the record. And I will ask a couple of very quick questions, and then perhaps follow on after our colleagues have asked some questions.

[The prepared statement, charts, and tables of Dr. Gardner follow:]

STATEMENT OF

BRUCE GARDNER

ASSISTANT SECRETARY FOR ECONOMICS

U.S. DEPARTMENT OF AGRICULTURE

BEFORE THE

SENATE COMMITTEE ON

AGRICULTURE, NUTRITION, AND FORESTRY

FEBRUARY 1, 1990

Mr. Chairman and Members of the Committee, I welcome the invitation to appear today to discuss soybean issues in the context of the next farm bill. I will discuss the evolution of the U.S. soybean industry and its relation to farm policy. Then I will highlight the current soybean situation and important issues for the upcoming farm legislation.

Trends in Soybean Supply and Use

Soybeans are the second-highest valued U.S. crop after corn, with an aggregate production value over $11 billion in the 1988/89 marketing year. Soybeans went from being virtually unknown in the 1930's to the dominant protein feed in the world today. Production and trade grew rapidly during the 1960's and 1970's, with the United States capturing the lion's share of world trade in soybeans and products. World soybean production continues to increase.

However, U.S. soybean production peaked in 1979 and 1982 before falling through the early- and mid-1980's.

Soybean demand is derived from the demand for protein meal and vegetable oil, which are joint products. Soybeans typically have derived two-thirds of their value from meal and one-third from oil. Some 55-60 percent of soybeans are crushed domestically each year, with the remainder exported.

Soybean meal is the major protein meal used for poultry and livestock feed in the United States, composing nearly 75 percent of the protein feed market. Domestic soybean meal use accounts for three-fourths of soybean meal production and the rest is exported. U.S. use rose sharply through the 1960's and 1970's as meat and poultry producers increased the protein content of their feed rations, thereby increasing their feeding efficiency and profits. As optimal feeding rations were approached and as American meat consumption shifted toward poultry, soybean meal use flattened in the United States.

Soybean oil dominates the domestic edible oil market, accounting for almost three-quarters of total edible fats and oil use. Some 85-90 percent of U.S. soybean oil produced is used domestically. U.S. demand for soybean oil has increased sharply during the 1960's and 1970's, but has grown slowly since the mid-1980's. Government export assistance and the 22.5-percent ad valorem import tariff for soybean oil have kept domestic soybean oil prices high relative to world prices. Higher relative U.S. prices have led to lower exports and record to near-record carryout stocks of soybean oil for the 1986/87 to 1988/89 marketing years. Soybean oil's share of domestic vegetable oil use has declined during this period, as a consequence of higher prices.

Government-assisted export programs have accounted for 80-90 percent of soybean oil exports. World production levels of oilseeds and vegetable oils are likely to continue rising in the years ahead, further decreasing real prices of oils and restricting U.S. soybean oil trade.

The United States continues to be the dominant producer and exporter of soybeans. However, stiff competition from the South American (chiefly Brazil and Argentina) and EC oilseed sectors has eroded the U.S. dominance during the 1980's. Rapid expansion in South American exports accounts for much of our lost trade shares. Ten years ago, the United States accounted for 65 percent of world trade in soybeans and products. In 1989/90, that share will likely be down to 35 percent. Since 1987/88, the U.S. rank fell from second to third behind Brazil and Argentina in soybean meal exports. The United States' ranking among world soybean oil exporters has fallen to fourth, behind Argentina, Brazil, and the EC.

U.S. soybean farmers are competitive with their South American counterparts. Data on cash expenses indicate that Argentina has some of the lowest cost regions in the world. However, the Corn Belt-Lake States region and the Northern Plains compare favorably with Argentina's efficient regions. Cash expenses in Brazil's efficient regions are high compared with the United States. The United States also benefits from internal transportation costs which are much lower than in Brazil or Argentina. Crop yields are comparable in all three countries. Among the three countries, the highest cost of production areas are the southeastern United States and center-west Brazil (Mato Grosso, Mato Grosso do Sul, Goias, Brasilia). However, other factors make the South Americans more competitive in world trade. Brazil and

Argentina focus their competition in the protein meal and vegetable oil markets by taxing exports of soybean products at a lower rate than soybeans.

U.S. farm programs have also encouraged South American expansion. Attractive target prices for competing crops and rigid cropping rules have made U.S. soybean acreage less responsive to world price changes. South American producers benefit from reduced price risk resulting from the soybean loan program and indirect limits of soybean area caused by attractive farm programs and persistent acreage reduction programs for feed grains and other crops.

U.S. soybean acres and production increased in 1989 in response to short supplies and higher prices from 1988's drought-reduced crop. This expansion will probably be temporary. Lower prices this season will likely lead to another drop in U.S. soybean acreage in 1990. The outlook is for continued foreign increases in production of soybeans, protein meal, and vegetable oil. Renewed growth in the U.S. soybean industry will depend on our ability to respond to world prices, the growth in foreign demand, and our ability to increase flexibility in farm programs in the 1990 Farm Bill.

Farm Policy and the Soybean Industry

Domestic farm programs and foreign and domestic trade policies have contributed to both the growth and decline of the U.S. soybean industry. For example, the Agriculture and Consumer Protection Act of 1973 amended the Agricultural Act of 1949 to allow farmers to plant soybeans on allotted acreage of other program crops and maintain their allotment history for those crops. The price support loan and purchase agreement program has been the only price and income support program provision for soybeans. This program has been in effect every year during the past two decades except for 1975, and has been mandated since the Food and Agriculture Act of 1977. Soybean farmers have been exempted from acreage reduction provisions as a condition for price support eligibility. The Food Security Act of 1985 amended the 1949 Act to prohibit acreage reduction requirements as a condition for soybean price-support eligibility.

The 1985 Act amended the 1949 Act to provide a price support loan rate of $5.02 per bushel of soybeans for the 1986 and 1987 crops. A formula to set loan rates for the 1988-90 soybean crops was established, as 75 percent of the average of prices received by farmers over the preceding 5 marketing years, excluding the high and low years, but with a minimum of $4.50 per bushel. In addition, the Secretary of Agriculture was given authority to reduce the loan rate up to 5 percent if the formula rate was judged to be so high as to discourage exports and cause excessive stocks. The Secretary used this authority to reduce the loan rates for the 1986 and 1987 crops. The 1949 Act currently provides the Secretary with discretionary authority to offer a marketing loan for soybeans. Marketing loans have not been implemented because prices have generally been above loan rates.

Soybeans are also affected by the feed grain, wheat, upland cotton, and rice programs. Soybean acreage has been influenced by the requirements and economic benefits of the programs, giving rise to the much-discussed issue of "flexibility." Currently producers would lose a portion of their program crop base acreage if they plant soybeans on one of these bases, unless they do so under the 0-25 program. To recover the full base, producers have to stay out of the commodity program for a year and overplant their former program base.

Furthermore, farmers make acreage choices by comparing market prices of soybeans with the target prices of program crops. High target prices relative to market prices for those crops are a disincentive to plant soybeans. Partly because the 1985 Act and prior acts discouraged soybean plantings, market prices for soybeans have been higher relative to other crops since passage of the Act. Between 1980 and 1985, the soybean-corn price ratio ranged from 2.2 to 2.5. In 1986, it jumped to 3.2, but has since declined steadily to about 2.4, as corn stocks have declined and market prices increased.

The Disaster Assistance Act of 1988 required that producers be permitted to plant soybeans and sunflowers on 10-25 percent of their 1989 permitted acreage of wheat, feed grains, upland and extra-long staple cotton, and rice (i.e., 10-25 program). However, plantings of soybeans were to be limited if the 10-25 program would cause market prices to fall below 115 percent of the loan rate in the previous year ($5.49 a bushel). In 1989, the Secretary allowed 80 percent of the soybean acreage requested under the 10-25 program to be planted, or about 2.8 million acres. About 1 million acres were planted under the program. This program was revised in the Omnibus Budget Reconciliation Act of 1989 to a 0-25 program for the 1990 crop. Enrolled acreage will be limited if the program causes prices to drop to 110 percent of the loan rate ($4.98 a bushel). Signup for this program began January 16. The 1989 signup was for 3.5 million acres, but fewer acres are expected this year because of lower expected prices in 1990/91.

While a domestic policy of relatively low soybean loan rates fostered soybean exports through the 1970's and early 1980's, exports of soybeans and products have declined in the last few years. Soybean oil and meal exports in particular have been depressed by export policies in Brazil and Argentina. These countries tax exports of soybean products at lower rates than unprocessed soybeans. For example, in 1988/89, 29 percent of U.S. soybean exports were in the form of meal. About 77 percent of combined Argentine and Brazilian soybean exports were in the form of meal. The EC pays high subsidies to its oilseed producers while maintaining competitive prices for oilseeds to its processors. EC soybean producers were guaranteed over $12 a bushel in 1989/90 and EC proposals for 1990/91 call for about the same level of support. These trade distorting policies underscore the importance of our Uruguay Round proposals to reform world farm trade and eliminate unfair trade practices.

Commercial export programs and P.L. 480 have played an important part in maintaining U.S. soybean oil exports. During fiscal years 1978 to 1988, P.L. 480 exports averaged about 30 percent of all U.S. soybean oil exports. An average of about 18 percent of total U.S. exports were assisted by the Commodity Credit Corporation's (CCC's) GSM-102 credit guarantee program for fiscal years 1978 to 1988. In addition, the export enhancement program (EEP) accounted for about 15 percent of U.S. soybean oil exports during fiscal years 1987 and 1988. During fiscal year 1988, these three programs accounted for more than 90 percent of all soybean oil exports. The EEP only accounted for about 4 percent of soybean oil exports in fiscal year 1989, but 78,500 metric tons of export sales have been committed under EEP so far in fiscal year 1990, pointing to more EEP sales activity this year than last.

Current Situation and Outlook for Soybeans

In 1989, 1.93 billion bushels of soybeans were produced. Supplies for 1989/90 are 15 percent above a year ago. Our forecast is that the record-high world soybean and oilseed production will lower prices, probably averaging between $5.35 and $5.65 per bushel, compared with $7.35 during 1988/89. Stocks are projected to be 335 million bushels at year's end.

Soybean crush and exports are forecast to rise 4.8 percent and 10.1 percent above last year's levels, respectively. Greater domestic soybean meal demand is the reason for the slightly higher crush in 1989/90. Season-average soybean meal prices are forecast to fall to $165-$185 per ton in 1989/90, down some 25 percent from 1988's drought-year levels.

The short U.S. crop in 1988/89 allowed the Brazilians to fill the gap in soybean meal trade. Meal exports this season are expected to decline further from last year's depressed level, because of intense competition from an expected record 1990 South American crop. This drop will be more than offset by a 5-percent rise in domestic meal use.

U.S. soybean exports totaled 527 million bushels in 1988/89, down from 802 million the season before. A small increase in soybean exports is forecast for 1989/90. However, larger world oilseed supplies will hamper exports while depressing prices.

A higher forecast crush will increase soybean oil production 5 percent in 1989/90. This increased production combined with a 1.7 billion-pound carryover places oil supply at a near-record 14 billion pounds. Above-trend growth in domestic consumption of soybean oil is forecast which is expected to reduce yearend carryover.

Soybean oil prices will likely range between 18.5 and 20.5 cents in 1989/90, down 8 percent from 1988/89. U.S. soybean oil will be more competitively priced to most other oils than it has been the last couple years. However, large palm oil supplies priced at a substantial discount to soybean oil is providing strong competition for soybean oil outside the United States. Current soybean oil exports are forecast at 1.5 billion pounds, down 13 percent from a year earlier.

Issues for Upcoming Farm Legislation

Policy issues concerning soybeans in farm legislation debates include:

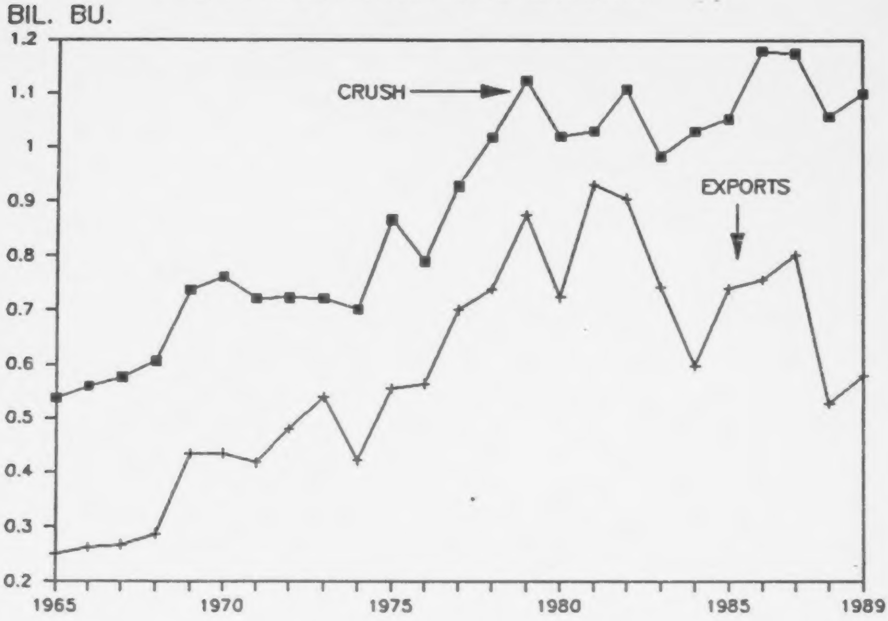
- price support levels and the price support rate formula.
- flexibility in farm programs that would enable soybeans to compete with corn, cotton, and other basic commodities on a market-demand basis.
- authority to implement a marketing loan for soybeans.
- programs to counter the effects of foreign export subsidies.
- the export enhancement program and export credit programs.
- new proposals such as the American Soybean Association's "graduated equity loan."

Changes in farm programs are needed so that U.S. soybean producers can more readily respond to market signals. Soybean production has declined dramatically in the southern United States because of falling returns to soybeans both absolutely and relative to competing crops, such as cotton. Programs such as the 0-25 program can allow soybean producers to respond to higher soybean prices without losing program crop base, but soybean prices must still compete with target prices.

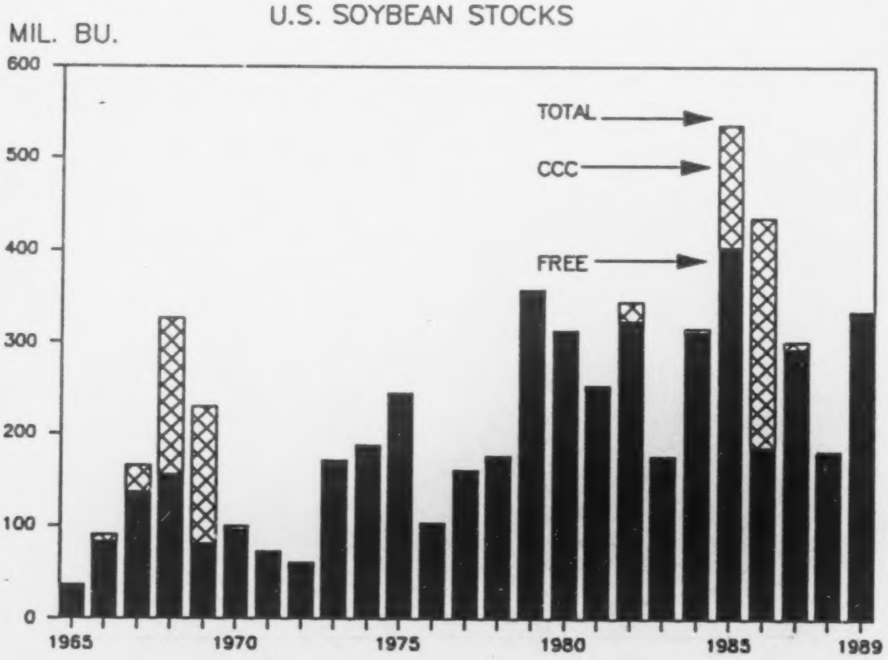
Marketing loans allow producers to repay price support loans at world prices when world prices are below announced loan rates. Under such conditions, marketing loans can reduce crop forfeitures and reduce CCC storage and handling costs. But, the short-run marketing loan payments can lead to large increases in outlays. Marketing loans were not implemented for the 1986-89 crops of soybeans. As mandated in the 1988 Disaster Assistance Act, the Secretary submitted reports to the House and Senate discussing reasons for and against marketing loans for the 1989 and 1990 soybean crops. Because of high world prices, a marketing loan would not have caused an appreciable effect on 1989 soybeans, and the same is expected to be true in the 1990/91 marketing year. A marketing loan will work only if U.S. loan rates exceed world prices adjusted for transportation and, in that case, there is potential for significant Government costs.

Foreign agricultural policies in oilseeds, particularly in the EC, have hurt U.S. soybean production prospects since the early 1980's. Moreover, foreign producers were able to respond to higher soybean-corn price ratios by planting more oilseeds, adding downward pressure to soybean prices, and further depressing U.S. soybean acreage. A recent GATT ruling against the EC's oilseed subsidies may provide long-term export benefits to the U.S. soybean industry, but the earliest action by the EC would be for the 1990/91 crop. This concludes my testimony, Mr. Chairman. I will be happy to respond to questions.

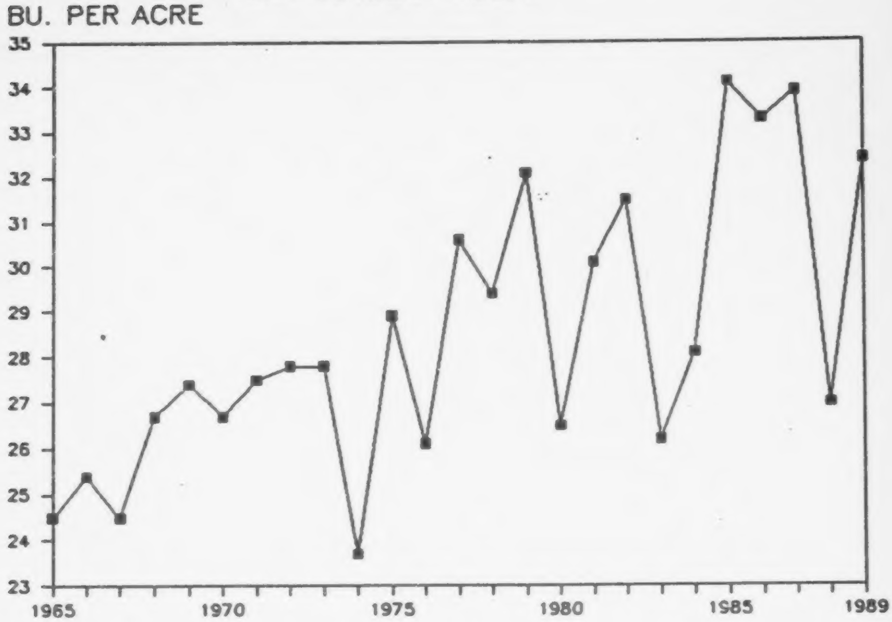
U.S. SOYBEAN CRUSH AND EXPORTS



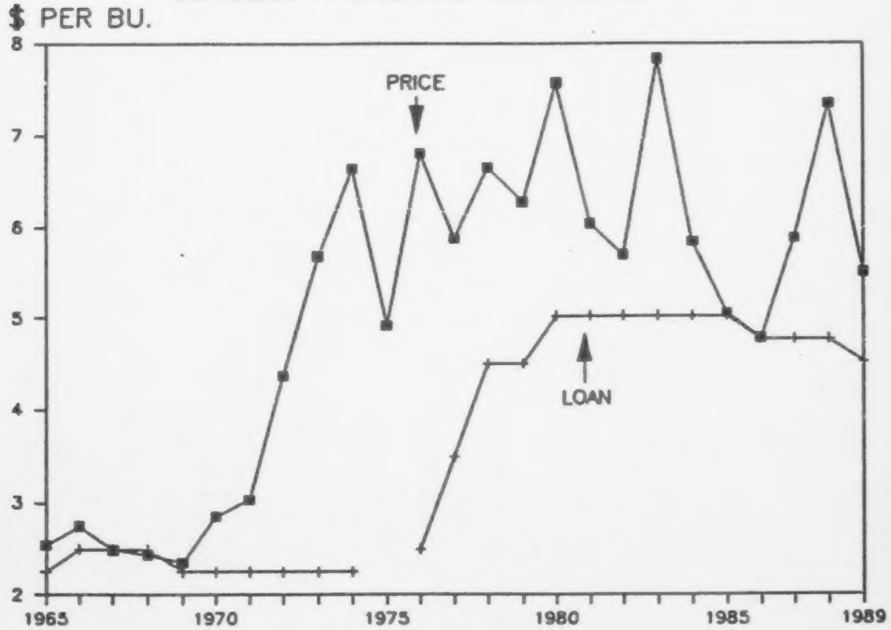
U.S. SOYBEAN STOCKS

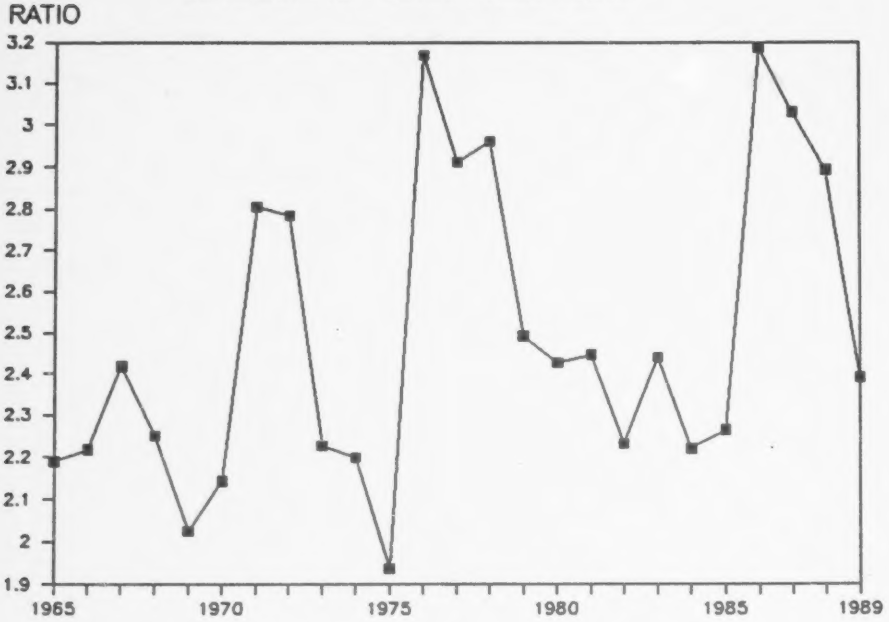


U.S. SOYBEAN YIELDS

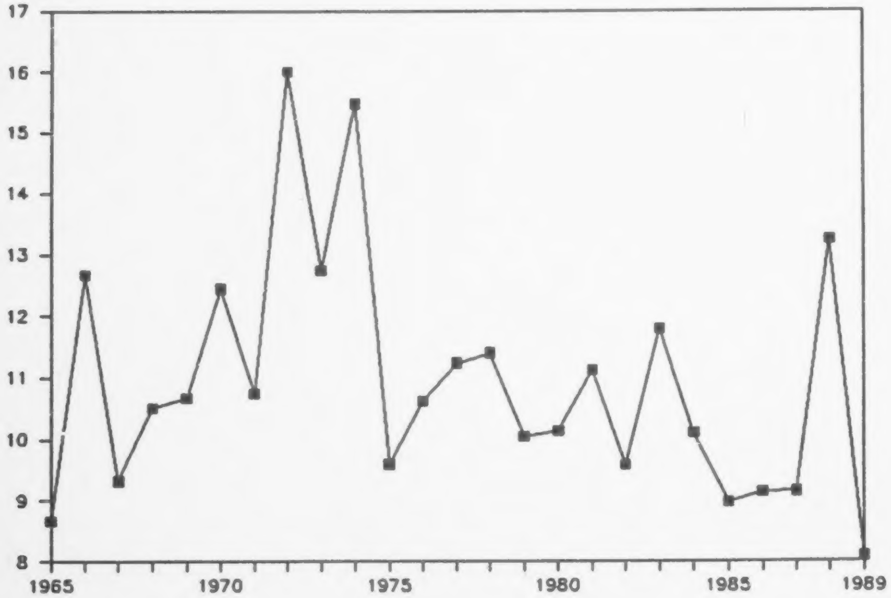


SOYBEAN PRICES AND LOAN RATES



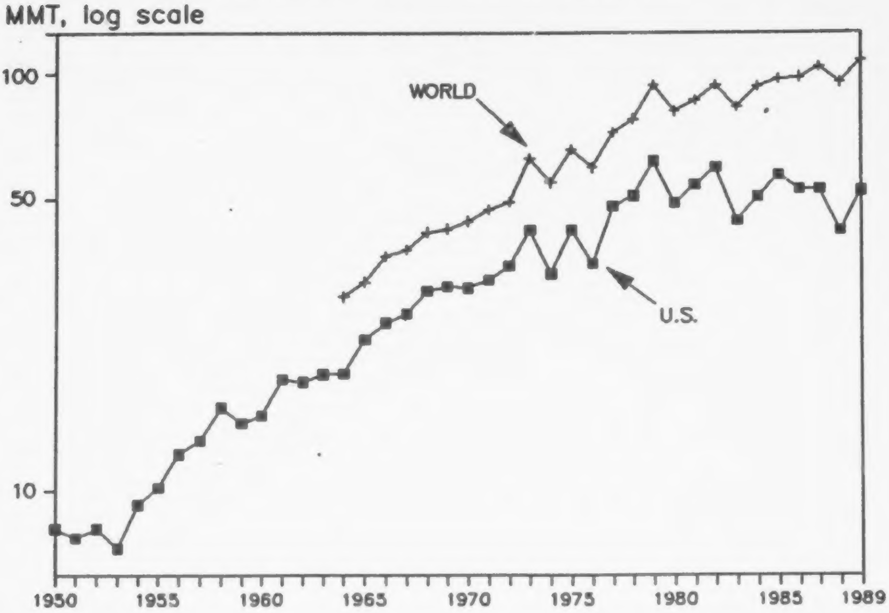


SOYBEAN-TO-CORN PRICE RATIO

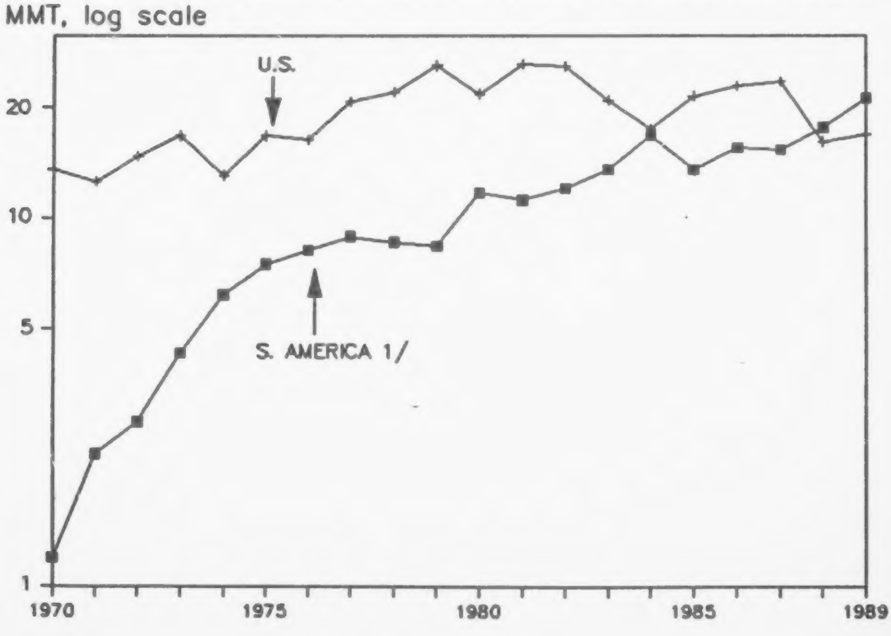


SOYBEAN-TO-COTTON PRICE RATIO

U.S. AND WORLD SOYBEAN PRODUCTION

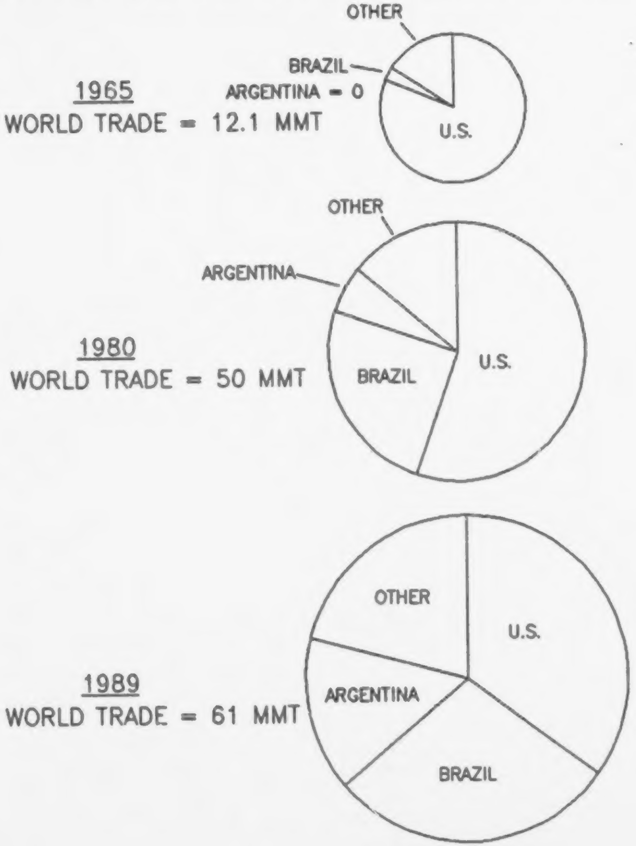


U.S. AND S. AMERICAN SOYBEAN MEAL EQUIVALENT TRADE

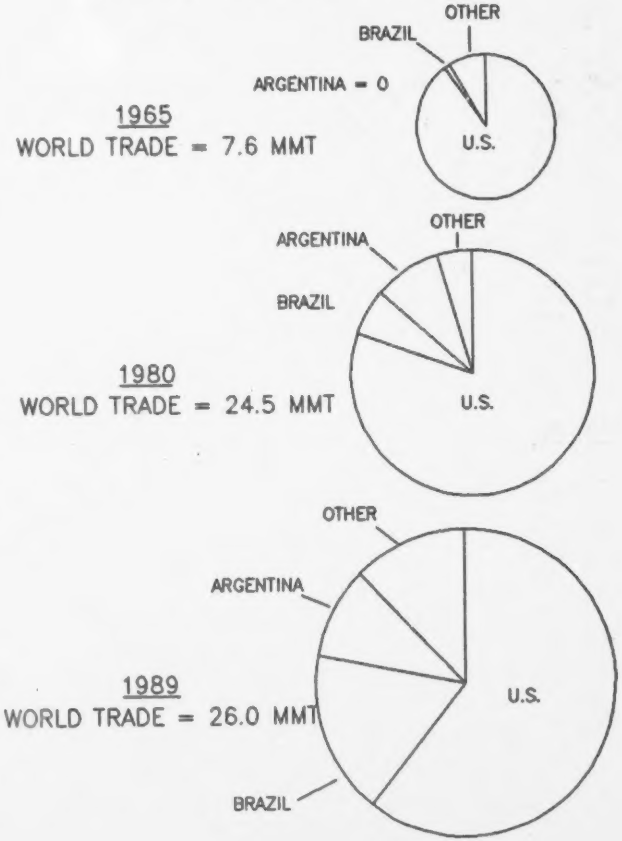


1/ BRAZIL AND ARGENTINA

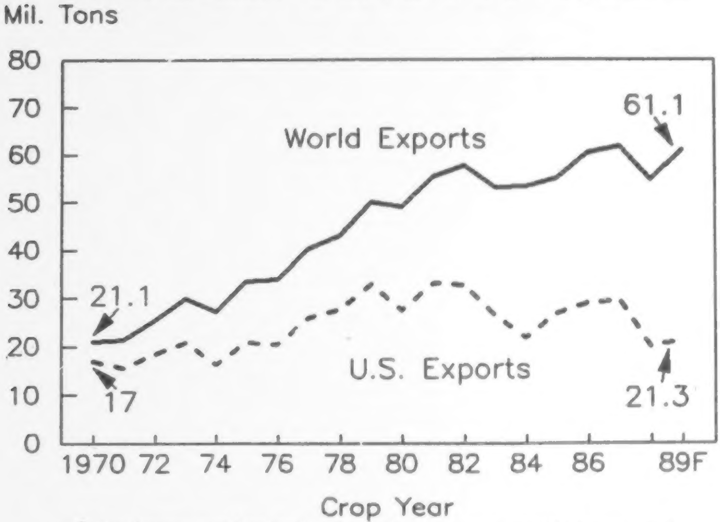
WORLD SHARE OF SOYBEAN AND MEAL EQUIVALENT TRADE



SHARE OF WORLD SOYBEAN TRADE

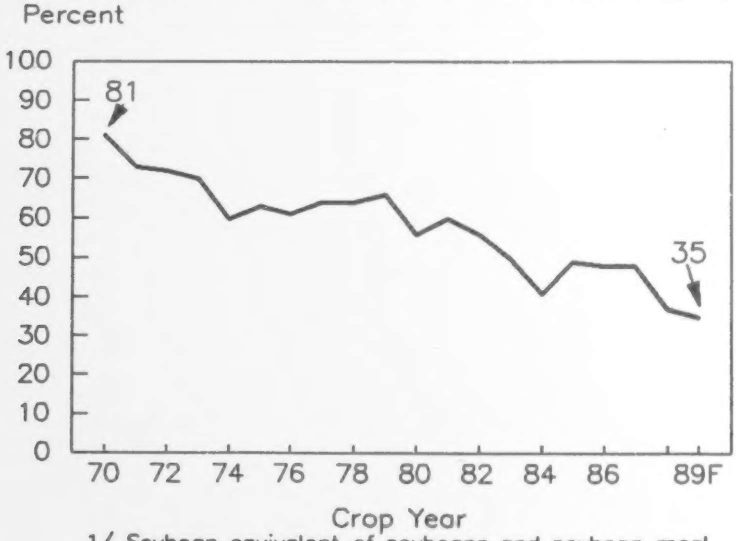


WORLD AND U.S. SOYBEAN AND SOYBEAN PRODUCT TRADE 1/



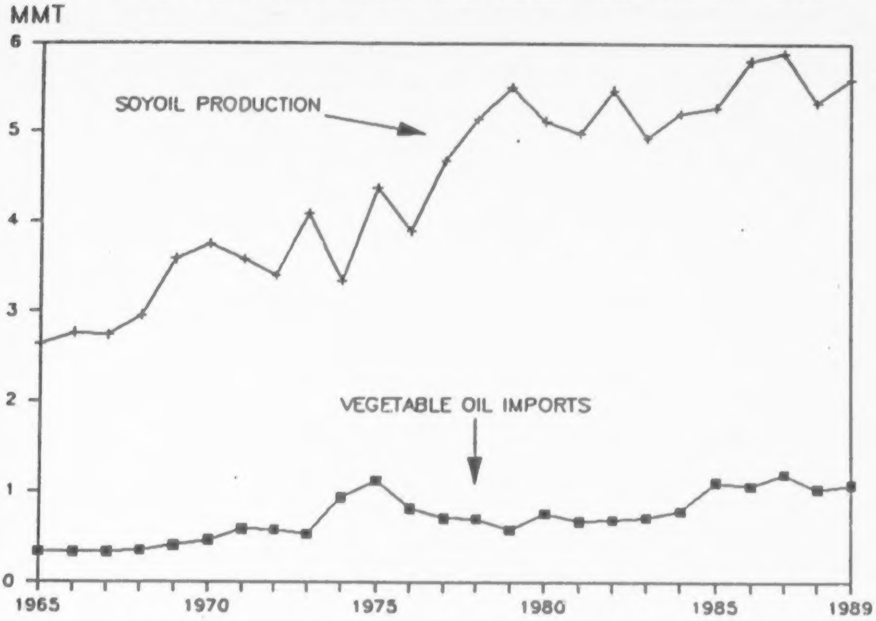
1/ Soybean equivalent of soybeans and soybean meal.

U.S. SHARE OF WORLD SOYBEAN AND SOYBEAN PRODUCT MARKET 1/



1/ Soybean equivalent of soybeans and soybean meal.

U.S. SOYOIL PRODUCTION AND VEGETABLE OIL IMPORTS



U.S. VEGETABLE OIL IMPORTS

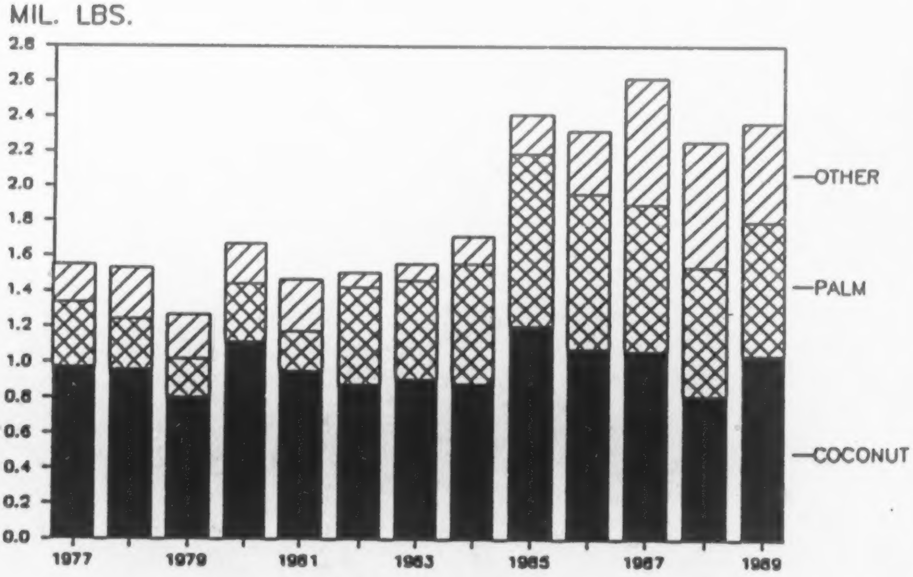


Table 1--U.S. soybean supply and disappearance, 1970-89

Year beginning Sept. 1	Supply			Disappearance				Ending stocks
	Stocks	Production	Total	Crush	Seed, feed & residual	Exports	Total use	
				Million bushels				
1970	230	1,127	1,357	760	64	434	1,258	99
1971	99	1,176	1,275	721	65	417	1,203	72
1972	72	1,201	1,273	722	82	479	1,283	60
1973	60	1,548	1,608	821	77	539	1,437	171
1974	171	1,216	1,387	701	77	421	1,199	188
1975	188	1,549	1,736	865	71	555	1,491	245
1976	245	1,289	1,534	790	77	564	1,431	103
1977	103	1,767	1,870	927	82	700	1,709	161
1978	161	1,869	2,030	1,018	97	739	1,854	176
1979	176	2,261	2,437	1,123	81	875	2,079	358
1980	358	1,798	2,156	1,020	99	724	1,843	313
1981	313	1,989	2,302	1,030	89	929	2,048	254
1982	254	2,190	2,444	1,108	86	905	2,099	345
1983	345	1,636	1,981	983	79	743	1,805	176
1984	176	1,861	2,037	1,030	93	598	1,721	316
1985	316	2,099	2,415	1,053	86	740	1,879	536
1986	536	1,940	2,476	1,179	104	757	2,040	436
1987	436	1,938	2,374	1,174	96	802	2,072	302
1988	302	1,549	1,851	1,058	84	527	1,669	182
1989 1/	182	1,927	2,109	1,100	94	580	1,774	335

1/ Forecast.

Table 2--U.S. soybean meal supply and disappearance, 1970-89

Year beginning Oct. 1	Supply			Disappearance			Ending stocks 1/
	Stocks 1/	Production	Total	Exports	Domestic	Total	
				1,000 short tons			
1970	137	18,035	18,172	4,559	13,467	18,026	146
1971	146	17,024	17,170	3,805	13,173	16,978	192
1972	192	16,709	16,901	4,558	12,160	16,718	183
1973	183	19,674	19,857	5,558	13,792	19,350	507
1974	507	16,702	17,209	4,299	12,552	16,851	358
1975	358	20,754	21,112	5,145	15,612	20,757	355
1976	355	18,488	18,843	4,559	14,056	18,615	228
1977	228	22,371	22,599	6,080	16,276	22,356	243
1978	243	24,354	24,597	6,610	17,720	24,330	267
1979	267	27,105	27,372	7,932	19,214	27,146	226
1980	226	24,312	24,538	6,784	17,591	24,375	163
1981	163	24,634	24,797	6,908	17,714	24,622	175
1982	175	26,714	26,889	7,109	19,306	26,415	474
1983	474	22,756	23,230	5,360	17,615	22,975	255
1984	255	24,529	24,784	4,917	19,480	24,397	387
1985	387	24,951	25,338	6,036	19,090	25,126	212
1986	212	27,758	27,970	7,343	20,387	27,730	240
1987	240	28,060	28,300	6,854	21,293	28,147	153
1988	153	24,943	25,100 2/	5,129	19,798	24,927	173
1989 3/	173	26,227	26,400	4,800	21,350	26,150	250

1/ Stocks at processor plants, includes millfeed (hull meal).

2/ Includes 4,000 short tons from imports.

3/ Forecast.

Table 3--U.S. soybean oil supply and disappearance, 1970-89

Year beginning Oct. 1	Supply			Disappearance			Ending stocks
	Stocks	Production	Total	Exports	Domestic	Total	
				Million pounds			
1970	543	8,265	8,808	1,743	6,292	8,035	773
1971	773	7,892	8,665	1,398	6,482	7,880	785
1972	785	7,501	8,286	1,066	6,704	7,770	516
1973	516	8,995	9,511	1,249	7,468	8,717	794
1974	794	7,375	8,169	1,028	6,580	7,608	561
1975	561	9,630	10,191	976	7,964	8,940	1,251
1976	1,251	8,578	9,829	1,547	7,511	9,058	771
1977	771	10,288	11,059	2,057	8,273	10,330	729
1978	729	11,323	12,052	2,334	8,942	11,276	776
1979	776	12,105	12,881	2,690	8,891	11,671	1,210
1980	1,210	11,270	12,480	1,631	9,113	10,744	1,736
1981	1,736	10,979	12,715	2,077	9,536	11,612	1,103
1982	1,103	12,040	13,143	2,025	9,857	11,882	1,261
1983	1,261	10,872	12,133	1,824	9,588	11,412	721
1984	721	11,468	12,189	1/ 1,640	9,917	11,557	632
1985	632	11,617	12,249	1/ 1,249	10,053	11,302	947
1986	947	12,783	13,730	1/ 1,172	10,833	12,005	1,725
1987	1,725	12,974	14,699	1/ 1,677	10,930	12,607	2,092
1988	2,092	11,737	13,829	1/ 1,523	10,591	12,114	1,715
1989 2/	1,715	12,320	14,035	1/ 1,435	11,100	12,535	1,500

1/ Data represents net exports; imports for 1984-89 are, respectively, 20, 8, 15, 196, 138, and 15 million pounds.

2/ Forecast.

Table 4--Farm-related program costs and prices for U.S. soybeans, 1970-88 1/

Fiscal year	Loan operations		Net price support and related expenditures 2/	Avg. price received by farmers	Loan rate
	Outlays	Repayments			
	Million dollars			Dollars per bushel	
1970	422.6	439.2	-160.7	2.85	2.25
1971	321.2	415.9	-606.5	3.03	2.25
1972	376.0	430.4	-64.9	4.37	2.25
1973	202.1	222.8	-20.7	5.68	2.25
1974	278.2	251.6	26.4	6.64	2.25
1975	78.1	99.9	-21.9	4.92	NA
1976 3/	.7	9.1	-8.4	6.81	2.50
1977	56.9	52.1	4.8	5.88	3.50
1978	340.2	309.0	31.1	6.66	4.50
1979	288.7	284.8	3.5	6.28	4.50
1980	549.1	485.1	116.0	7.57	5.02
1981	672.3	581.7	86.7	6.04	5.02
1982	1,105.9	935.9	169.2	5.67	5.02
1983	1,981.7	1,674.8	287.7	7.83	5.02
1984	505.3	944.9	-585.0	5.84	5.02
1985	1,382.0	675.9	711.4	5.05	5.02
1986	2,576.3	1,009.0	1,597.4	4.78	4/ 4.77
1987	1,508.0	1,157.0	-475.7	5.88	4.77
1988	1,282.8	1,644.1	-1,676.0	7.35	4.77
1989	567.4	592.0	NA	5.35-5.65	4.53

1/ Excludes export assistance program costs.

2/ Loans and purchases, storage and handling, and other outlays such as transportation, producers' storage payments, loan collateral settlements, export embargo contract expenses less sales proceeds, loan repayments, and other receipts.

3/ Includes July to Sept. 1976 to allow shift from July/June to Oct./Sept. fiscal year.

4/ Gramm-Rudman-Hollings Deficit Reduction Act reduced the effective loan rate to $4.56 per bushel.

Table 5--U.S. Soybean Plantings and Related Acreage

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
					--Million acres--						
Planted											
Soybeans	71.4	69.9	67.5	70.9	63.8	67.8	63.1	60.4	58.2	58.8	60.7
Planted Plus Idled											
Corn	84.3	84.0	84.1	84.0	92.4	84.4	88.8	90.3	89.4	88.2	82.5
Conservation Reserve											
Corn 1/	--	--	--	--	--	--	--	.2	2.3	2.8	3.4
Soybeans 2/	--	--	--	--	--	--	--	.2	1.9	2.8	3.5
Double-Cropped											
Soybeans	--	--	--	11.3	7.7	7.5	5.0	3.6	3.8	5.0	6.2

1/ Includes base acres for corn only that are retired, and does not include non-program corn acreage idled under the Conservation Reserve.

2/ ERS estimates-- No data are kept on soybean acreage retired under the Conservation Reserve.

Table 6--Regional U.S. Soybean Plantings

Year	E. Corn Belt	W. Corn Belt	Delta	Southeast
		--Million acres--		
1984	17.4	21.9	9.9	8.8
1985	17.5	21.0	8.7	7.5
1986	17.0	21.2	7.9	6.0
1987	17.2	20.1	7.6	4.9
1988	17.0	19.8	7.7	5.0
1989	17.5	20.4	7.3	5.6

E. Corn Belt: Illinois, Indiana, and Ohio; W. Corn Belt: Iowa, Missouri, Minnesota, and Nebraska; Delta: Arkansas, Mississippi, and Louisiana; Southeast: Alabama, Tennessee, Georgia, South Carolina, and North Carolina.

Table 7--Crop Acreage in the Delta and Southeast

Item	1982	1983	1984	1985	1986	1987	1988	1989
	--Million acres--							
Delta								
Feedgrain planted plus idled	3.7	4.3	4.7	6.0	5.4	4.5	4.3	3.8
Cotton planted plus idled	2.6	3.1	3.0	3.3	3.2	3.4	3.7	3.6
Winter wheat idled	.1	1.2	.4	.5	.6	.8	1.0	.4
Conservation reserve	--	--	--	--	.2	1.1	1.5	1.8
Total	6.4	8.6	8.1	9.8	9.4	10.0	10.5	9.6
Soybeans planted	15.3	13.3	13.3	11.5	10.5	9.9	9.9	9.8
Southeast								
Feedgrain planted plus idled	6.1	7.1	6.2	6.4	6.0	5.7	5.8	5.1
Cotton planted plus idled	.7	.9	.9	1.1	1.0	1.1	1.2	1.1
Winter wheat idled	.1	.9	.4	.5	.5	.6	1.0	.5
Conservation reserve	--	--	--	--	.2	.9	1.3	1.7
Total	6.9	8.9	7.5	8.0	7.7	8.3	9.3	8.4
Soybeans planted	9.6	7.8	8.0	7.0	5.3	4.2	4.3	5.0

Delta: Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee; Southeast: Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia.

TABLE 8: SOYBEAN YIELDS: U.S., ARGENTINA, AND BRAZIL

	United States	Argentina	Brazil
	(metric tons per hectare)		
1964	1.53	1.06	1.21
1965	1.65	1.13	1.21
1966	1.71	1.24	1.17
1967	1.65	1.10	0.91
1968	1.80	1.14	1.17
1969	1.84	1.64	1.14
1970	1.79	1.64	1.21
1971	1.85	1.15	1.29
1972	1.87	1.73	1.39
1973	1.87	1.44	1.53
1974	1.59	1.36	1.70
1975	1.94	1.60	1.75
1976	1.75	2.12	1.77
1977	2.06	2.16	1.23
1978	1.97	2.31	1.24
1979	2.16	1.77	1.73
1980	1.78	2.01	1.79
1981	2.02	2.09	1.56
1982	2.12	1.84	1.81
1983	1.76	2.41	1.65
1984	1.89	2.06	1.80
1985	2.29	2.20	1.49
1986	2.24	1.99	1.87
1987	2.28	2.28	1.71
1988	1.82	1.65	1.89
1989	2.18	2.10	1.78

TABLE 9: U.S. FARM PROGRAM OUTLAYS

Fiscal Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1981-90 Avg.
	MIL. $										
Soybeans	87	169	288	-585	711	1,597	-476	-1,676	-86	236	27
Feed grains	-533	5,397	6,815	-758	5,211	12,211	13,967	9,053	3,384	4,270	5,902
Wheat	1,543	2,238	3,419	2,536	4,691	3,440	2,836	678	53	522	2,196
Rice	24	164	664	333	989	947	906	128	631	616	540
Cotton	336	1,190	1,363	244	1,553	2,142	1,786	666	1,461	-242	1,050
Dairy	1,894	2,182	2,528	1,502	2,085	2,337	1,166	1,295	679	483	1,615
ALL	4,036	11,652	18,851	7,315	17,683	25,841	22,408	12,461	10,523	8,174	13,894

TABLE 10: U.S. CORN AND SOYBEANS, NET RETURNS PER PLANTED ACRE 1/

Crop Year:	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989F
	$									
Corn:										
Market Only	160	125	110	125	143	116	43	80	94	103
Market Plus Program Pymts.	160	125	125	125	191	167	155	193	131	159
Soybeans	143	117	99	145	107	109	101	121	146	119

1/ Returns above variable (input) cash expenses.

Senator **Pryor**. You have done, I think, a very good job, a kind of overview of the soybean and oilseed situation. And I am wondering if the administration has any solutions to the problem.

What does the administration propose to do to sort of get a high price for the soybeans? What do you propose to do in flexibility, and what do you propose to do to see that soybean farmers get a fairer shake out there in prices?

Dr. **Gardner**. Well, the administration will have proposals in the soybean area as in other areas. But those will be laid out in detail by Secretary Yeutter next week when he appears before you.

Just in general terms, it is quite clear that flexibility is going to be a key element in our proposal overall. And that element will definitely be addressed.

The other elements are things that I would rather wait until the Secretary comes to discuss.

Senator **Pryor**. All right. Bruce, now you have just given me a little inkling of what might be the plan this year of the administration.

Is the administration going to come forward and say, OK, here is what we think about soybeans and then, 3 or 4 weeks later, here's what we think about corn or here's what we think about rice? Is this going to be a piecemeal farm bill or are we actually going to see an overall picture of a farm policy enunciated by the administration in form of a bill?

Dr. **Gardner**. You will see an overall picture of farm policy.

Senator **Pryor**. Are we going to have the administration farm bill?

Dr. **Gardner**. Well, it depends what exactly you have to have to call it a bill in the full sense of the term.

Senator **Pryor**. Yes, sir. Well, usually around this table, there is a lot of blood on this table in past markups and farm bills. I have been through two of them. This will be No. 3.

And please, Senator Lugar, correct me if I am wrong, I have always thought we had the administration farm bill, we started looking at it, and we sort of worked off of that. Is that the way we have done it in the past?

Senator **Lugar**. Sometimes.

Senator **Pryor**. Sometimes. All right.

I would think it might be more often than not.

What did we work off of this year? What did we start with? We would like to know that.

Dr. **Gardner**. What I can say to you is we will have a lot to work off of. [Laughter.]

Senator **Pryor**. A lot of what? [Laughter.]

Dr. **Gardner**. A lot of substance and recommendations on these various issues that we have been addressing, soybeans and the other areas.

Senator **Pryor**. Final question for the moment.

Will these recommendations come from the administration or will they come from Geneva?

Dr. **Gardner**. These will come from the administration.

Senator **Pryor**. Senator Lugar.

Senator **Lugar**. Well, Mr. Chairman, I have raised many of the same questions with regard to how we began the discussion on the farm bill. And my understanding, that Secretary Gardner has confirmed today, is that the administration will offer principles, guidelines, some coherent idea of how these programs fit together, but that it will be up to us to produce the legislation in the Senate.

There are at least some thoughts on the House side (all of these are not totally confirmed) that the current farm bill will serve as a basis for beginning in subcommittees, and that as members there want to make changes, improvements or deletions, they will begin amending that particular piece. And, finally, at the full committee level, given the administration guidelines, and what has occurred in the subcommittees, a bill will be crafted that we will have to contend with after our work.

I suppose you could go either way, but that appears to be what Secretary Yeutter has determined that he will do, and I think that is essentially what he will say. So we are left on our own, and your subcommittee has unlimited authority really to craft what you want to do.

But, essentially, by then a guideline of sorts with regard to the total cost of the bill, our position with the budget, and these sorts of things will come into play.

I appreciate your testimony, Mr. Secretary. For those who have not seen the testimony, it is a very comprehensive history of the soybean situation in our country. The parts of the picture that come from crushing of soybeans for meal, for feed for poultry and livestock, and for oil, and the differences we have in competitive factors in those two areas as well as our general deterioration as a world competitor from roughly 65 percent of the market in the early part of the decade to 35 percent, concerns all of us a great deal. That's the dynamic upside for most soybean farmers in our States to see that world market and try to understand the dynamics of that, and how our programs, not only the one for soybeans but others, have affected that competitive ability. And that will concern us all the way through this.

When Senator Pryor raised the question will it be determined here or in Geneva, it implied correctly that the whole world picture does impinge upon this, maybe less the GATT hearings than what is occurring in Brazil and Argentina, or what we have done to destroy our own potential.

So I simply commend you. I have no questions, but simply a comment that the history is important for all of us to understand so we have some idea, particularly in this last decade, of what has happened to us through our decisions on other farm bills. And, prayerfully, we will have some additional wisdom having seen that history to do better in this one.

Senator PRYOR. Let the record note that Senator Bond is here.

Senator Bond, we have made our opening statements, and I prefer actually to conclude the questioning, and then if you had an opening statement, is that all right with you?

Senator BOND. I have a very powerful opening statement, Mr. Chairman.

Senator PRYOR. Well, if it is that powerful, why do you not put it in the record? [Laughter.]

Senator BOND. I will put it in the record so we will not disrupt the hearing with it.

Senator PRYOR. Well, very good. Thank you, Senator Bond. You are welcome at any time, as you know, to participate in any way.

[The prepared statement of Mr. Bond can be found on pp. 319-320.]

Now, I am using the early bird route.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Secretary Gardner, in your prepared remarks, you make reference to EC factors. You left this reference out in your opening summary. I wanted to give you the opportunity to return to this subject because I think your evaluation on the effect of these extraordinarily high support levels is important to this committee.

I indicated in my opening statement that EC subsidizes soybeans at over $15 a bushel on soybeans, over $28 a hundredweight on sunflowers, roughly triple the market prices we see.

Could you give us some indication of the effect of those very high subsidies on EC production, and what that has done to our relative position in the market?

Dr. GARDNER. Well, there is no question, Senator Conrad, that the subsidies they pay are high—I say in my prepared testimony $12—but it depends on how the ECU is exchanging for the dollar at the moment. But roughly triple world prices is not a bad estimate of what they are doing.

There is no doubt they have had a tremendous supply response, not only in soybeans, but even more so in other oilseed crops. In response to these supports that they have had, of course we are pleased about the section 301 case that we have won, objecting to what they have done. They have agreed to take appropriate steps in response to that.

So there has been a problem there.

Senator CONRAD. How significant? Can you give us a judgment on how significant that has been to our relative decline?

Dr. GARDNER. Well, one reason I did not mention it in the opening statement is that I thought that although, in relative terms they have increased a lot, they are still not the player in the world markets that Argentina and Brazil are.

Senator CONRAD. But in relative terms it is fair to say they have experienced a very sharp increase in production.

Dr. GARDNER. Yes.

Senator CONRAD. And does it not follow that it would be wise to send a very clear signal that the United States is going to fight for these markets when we write the 1990 farm bill, particularly in light of the GATT negotiations?

Dr. GARDNER. Yes, absolutely.

Senator CONRAD. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Conrad.

Senator Kerrey.

Senator KERREY. Well, Dr. Gardner, it is difficult for me to ask many policy questions since I know that you are prepared to answer very few of them.

Let me just make a point that I think it is pretty clear what a bill is. And so when the chairman asks, are you going to submit a bill, I think with all due respect, the answer should just be no.

I have been around here for a year, and one of the things I have figured out is the definition of a bill. The administration is not going to submit a bill, they are going to give us guidelines. And the importance of that, Dr. Gardner, is that unless we, as early as possible, resolve real conflicts that are there, we are going to drag this thing out and not get a farm bill. We are going to end up with the worst of all situations. Our farmers will be sitting out there unable to make planting decisions as a consequence of our delays.

And so I come to the task with an urgency to resolve the conflicts, get the arguments out in the open, as there will be plenty of them.

Second, I see a very fragile recovery in agriculture. I heard in 1985 the argument that we have high carryovers, so we have to lower loan rates and clear the market, get rid of the inventory. Once the inventory comes down, the prices are going to come back up, and we are not going to need deficiency payments any more—or so we were told.

And then I heard an awful lot of very strong criticism about farmers taking the deficiency payments and the need to cut subsidies. So what the American people have out there right now is an argument as to whether or not a farm bill is even needed.

What we have out there now, almost, are the jaws of consent saying that what we have to do is reduce subsidies, that farmers are oversubsidized and we have to decrease the subsidies amount. My farmers say the program is too costly. But they understand the need for some kind of a farm program in order to stabilize income and prevent surplus crops from depressing prices.

So I am very much concerned because I have listened to some of the language of Secretary Yeutter. He and I have gone around and around on this a time or two before because the rationale for the farm bill itself is not clearly enough established. And I think that places American agriculture at risk, frankly.

So my hope is that the guidelines the Secretary will present to us will be very, very clear and as specific as possible so that even though there may not be a bill, they will be precise enough that we can get to the arguments as quickly as possible, and find the compromises that will have to come eventually so that producers can make planting decisions later this summer.

Dr. GARDNER. I think you will be very pleased at what he says.

Senator PRYOR. Thank you, sir.

Senator Heflin.

Senator HEFLIN. I think my questions have been asked.

Senator PRYOR. You don't have any further questions?

Senator HEFLIN. No.

Senator PRYOR. Let me ask a couple.

One, last night I was there listening intently on the floor of the House of Representatives to the President's State of the Union message. There was a brief mention toward the last of the speech about the farm bill. And it was in a whole collage of seven or eight other issues, farm bill, whatever.

Does that say anything to us here, Dr. Gardner, about the emphasis the President is placing on the farm policy or the 1990 farm bill?

Dr. **Gardner**. Well, I think the President is interested in farm policy as much as other Presidents have been, and perhaps more. Although I have not spoken to him personally, he is interested generally in the environmental aspects of all sorts of policy, and they come into the farm legislation. He is interested in that part particularly and he is interested in agriculture generally.

Senator **Pryor**. All right, Dr. Gardner.

How do you interpret the budget that he submitted to Congress 2 days ago relative to the farm bill of 1990? What impact does that have on our discussion this morning?

Dr. **Gardner**. Well, I think there's no doubt that the budget in general is going to have a big impact on the way the farm bill discussion proceeds because——

Senator **Pryor**. I am told that specifically the cuts in the farm subsidies.

Dr. **Gardner**. Yes. Well, that, shared with the cuts that will have to be taken elsewhere means that it poses some real problems.

It would be much easier to write this bill if we didn't have to worry about the budget.

Senator **Pryor**. And if I am right, what is the administration's position on where those cuts should take place?

Dr. **Gardner**. That again is something that I do not wish to address at this time and we will——

Senator **Pryor**. Yes. I am not trying.

Will the Secretary give us those guidelines next week?

Dr. **Gardner**. He will help as much as he can.

Senator **Pryor**. This is a fascinating discussion. [Laughter.]

Now, if we keep target prices where they are now, how much do you think USDA, what do you feel would be, as a reasonable amount, of Government, let us say exposure, to keep the soybean, sunflower and other oilseed industries alive in the United States?

Dr. **Gardner**. When you talk about keeping industries alive, there are different degrees of help needed in the different oilseeds.

I do think that—Senator Conrad mentioned sunflower seeds—this is the one where you see quite disturbing acreage trends going on. There are questions even about keeping the processing facilities in place.

Now, what it would take in the sunflower seed area is not clear to me exactly, but it does bring up the issue that those minor oilseeds probably have to be treated in an overall picture together, which makes things even more complicated than they otherwise would be.

But again I don't want to get specific at this time on what kind of——

Senator **Pryor**. Dr. Gardner, the soybean farmer is a very, very independent farmer, very independent lot. Now, they have, for the first time in my memory, come forward with at least some sort of a plan or policy, whatever, of what they think should be the relationship between the soybean producer and the Federal Government.

What do you think of this plan?

Dr. **Gardner**. Well, I think it is a creative idea, and it is something that one can see why the soybean producers are interested in it—in seeing themselves getting a position in the Government programs more similar to what the other commodities have.

Senator **Pryor**. When you lose your shirt, you get interested in any kind of a program. I think that is what the soybean farmers sense out there is happening.

I look forward to Secretary Yeutter coming and giving us some guidelines and principles on this.

Dr. **Gardner**. I look forward too.

Senator **Pryor**. Senator Lugar or any other of our colleagues. Senator Lugar.

Senator **Lugar**. I will just make a quick comment, Mr. Chairman.

I would say the President of the United States is interested in the farm bill. He did mention it, as the chairman acknowledges, even if only briefly, last evening. But, more extensively, he made a speech to the Farm Bureau convention, and Secretary Yeutter accompanied him on that occasion. I know he shares our desire for prosperity for farmers.

I think it is fair to say the President also has submitted a budget which, as you know, Mr. Chairman, calls for about $1.5 billion less of exposure of the Federal Treasury to the agricultural program. And as I read the policy implications of that, the President did not spell out how that was to be achieved, and left that to our wisdom, there being at least half a dozen good alternatives, all of which are controversial. And I suppose the Secretary will offer some comments, if we ask him, about each of those routes. It is not clear how you get there, but it is clear what needs to be done, I would say.

And, finally, the soybean farmers, at least in my State, have had reasonably good years. They are competitive farmers, and most of us who have soybeans have corn and we do other things in addition, so we have that benefit.

The acute problem often has come, as I mentioned in my opening statement, in States where soybeans are the single crop and sometimes a fairly high cost crop. And we recognize some geographical changes here. But I would guess that that may pose a more difficult problem in arriving at a consensus among soybean people generally, the disparate cost factors that we have, quite apart from the overall demand for soybeans internationally, which the Secretary's testimony gets to.

Senator **Conrad**. Mr. Chairman, might I have a final question of Mr. Gardner?

Senator **Pryor**. Yes.

Senator **Conrad**. Earlier you responded to my question about the importance of sending a signal that the United States was ready to fight for these markets, especially in light of the GATT round.

How do we send that message when the President's budget says cut, and says cut quite substantially from where we are today? Doesn't his budget send just the wrong signal? Does that not say to our competitors the United States is getting ready to get rolled?

Dr. **Gardner**. Well, I think it matters more on how you spend the money and what the other forms of the programs are. You can send a fairly strong message with not necessarily additional funds. But, perhaps more important is making it quite clear that if we do not get cooperation in the multinational front, things will be very much different, and to say that we are determined not to lose these markets. And that if the multilateral framework does not work, we will not just walk away and say OK. We will proceed to do what we have to do to stay competitive.

Senator CONRAD. Well, I would suggest to you that when the President is proposing a steep cut in commodity support in this country, the message he sends, especially to our European friends, is that the United States is not ready for the long-term battle over these markets. And I think that is a serious mistake.

Senator PRYOR. Thank you, Senator Conrad.

Other questions from our colleagues?

Senator Bond.

Senator BOND. Thank you, Mr. Chairman.

Dr. Gardner, did you say what the result was of the 10/25 program?

Dr. GARDNER. I have not discussed it in detail, but do you want to hear a little on that?

Senator BOND. OK. What was it? What happened?

Dr. GARDNER. Well, we had a signup of about 3½ million acres. Because of the projection that Senator Heflin mentioned, we were not able to admit all that into the program. We had 2.8 million acres nominally in it. But as far as we can judge, because soybean acreage did not go up by that much last year, we added less than 2 million more acres, we would say probably not more than 1 million acres, went into soybeans because of that program.

Senator BOND. Well, that leads to my second question.

I agree with you 100 percent on flexibility. That is the one thing that I hear from my farmers in Missouri, and I have talked with others of you saying we need more flexibility, to plant for the market, and also to meet the conservation compliance plan requirements.

But it appears that flexibility alone is not enough for soybeans. Do you think there is any hope that without some kind of income support, some kind of program, we could see us regaining the soybean markets that we have been losing, or at least stopping the loss of those markets?

Dr. GARDNER. Well, let me say that the flexibility under the 10/25 program was limited in the sense that the producers had to give up deficiency payments to enter that program so that it was not as complete as the flexibility that you hear proposed in some of these NCA type programs.

Senator BOND. Has the Department analyzed the graduated equity loan which has been proposed by the soybean producers? What results? What is the estimated cost?

Dr. GARDNER. Well, I have seen several analyses done outside the Department and within the Department. We do not have a single official position on it. But I can just tell you my general sense of what the analyses of that program show. What you have to ask is, first, in response to the equity loan guarantee, say it is the $6.22 if you imagined it being used in 1990, how much more soybean acreage would you get? When you get the soybean production, what would that do to the market price of soybeans? And then the difference between $6.22 and market price is going to determine the budgetary outlay.

The secondary question is that this will also impact the corn market, and to the extent that we increase corn prices because of this kind of program, we would see some reductions in budgetary outlays in the corn program.

The question is how do those things sort out? How much supply response do you get in the beans? How much does the price of beans fall, and how much does the price rise in the corn?

Putting all those things together, you see a lot of different estimates. The cost-out I have seen over the next 5 years suggests perhaps a net annual budgetary cost in the neighborhood of $1 billion.

Senator **Bond**. What kinds of impact on soybean plantings?

Dr. **Gardner**. Well, again, that depends on the supply response. I have seen estimates as high as in the neighborhood of 3 million acres. I think that is optimistic and that you would see more like 1 million to 1½ million acres.

Senator **Bond**. We have been working with the Food and Agricultural Policy Research Institute at the University of Missouri, Columbia, and Iowa State, and we are anxious to find out their analysis.

One of the analyses I saw actually showed very little gain in acreage which was a concern there. But we would be interested in hearing your best analysis.

Have you taken a look at marketing loans or target prices for soybeans?

Dr. **Gardner**. Well, these things have all been analyzed.

Senator **Bond**. What you are telling us is tune in on, what was it, February 7 that Secretary Yeutter is coming here?

Dr. **Gardner**. That is a good idea.

Senator **Bond**. He is going to answer all those questions and everything we want to know on commodities. So you are just showing us a little bit of the sleeve, not the whole body. OK. [Laughter.]

What are the economic conditions you perceive for oilseeds? Do you think the conditions, demands are going to be good, continue good in the United States? We hope to get a promotion bill through. Do you see that having an impact?

Dr. **Gardner**. Well, of course, it could. I think even more difficult than these acreage questions is what these promotion bills actually do, but they can be helpful.

Over the years, of course, the soybean market has been expanding on a worldwide basis. People have found more use for beans as livestock feeding expands around the world; we see more demand for meal, the oil market has been quite weak lately, and what the recovery prospects are there, I am not sure.

But, over the longer term, I think soybeans are still going to be a good crop to grow.

Senator **Bond**. What does the future hold for oilseeds in South America? Are they going to pick up and continue to have increasing supplies to meet the increased demand?

Dr. **Gardner**. Well, I think on South America, that there are two kinds of facts that you have to bring into the accounting.

First is that they have a lot of land that could potentially be used in soybeans.

But, second, over the years, they have been perennially unable to get their policy act together in a way that can really make their economies function generally as well as the soybean sector. So, how those things sort out in the future is going to determine the long run in my view.

And I do not see immediate big increases in their soybean acreage.

Senator **Bond**. So long as Argentina continues to do us the factor of taxing their exports, we are going to be all right.

Dr. **Gardner**. Yes. They are quite the opposite of the EC case that Senator Conrad was mentioning.

Senator **Bond**. Thank you, Mr. Chairman.

Senator **Pryor**. Thank you, Senator Bond.

Final question for Senator Conrad, and then we will move to our next panel.

Senator **Conrad**. My final question, Mr. Gardner, would be simply this.

If all things remain the same, but we make the cuts the President has proposed, what would be the effect on farm income?

Dr. **Gardner**. By all things—of course, it is hard to know what we mean by all things remaining the same, while phasing down all the target prices.

Senator **Conrad**. All other factors remain the same, but we make the cuts the President has proposed. In other words, planting conditions, harvesting conditions, weather conditions, and market conditions stay the same. And we isolate the effect of the President's proposed cut. What would that do to farm income?

Dr. **Gardner**. Well, it is not clear that it would reduce farm income by the amount of that cut. You would have to work through——

Senator **Conrad**. Would it increase farm income?

Dr. **Gardner**. I will not say it is impossible but it is probably unlikely. But I would be glad to give you a full assessment if you would like that question analyzed for the record.

Senator **Conrad**. Is it not the case that if all other things remain the same, and you cut as the President has proposed, that you will reduce farm income?

Dr. **Gardner**. It is not so clear to me because you do not know where you are going to cut. You know, if there are similar ways——

Senator **Conrad**. Where are the possibilities for us to cut what the President has proposed? What are the options?

Dr. **Gardner**. Well, of course, there are many options. And again we are getting into the areas that I cannot discuss today.

Senator **Conrad**. Just as a matter of record what are the possibilities for us? I can think of two, either cut target prices or you raise the loan rate. Those are two major options, would you agree?

Dr. **Gardner**. Those are two options, yes.

Senator **Conrad**. Is the President going to—would you tell us which way you would lean?

Dr. **Gardner**. Not today.

Senator **Conrad**. Not today.

Well, I would just leave you, Mr. Gardner, with the thought that it is evident to me if you cut support prices, and everything else remains the same, you reduce farm income. I do not know how you avoid that conclusion.

Senator **Pryor**. Yes, Senator Lugar.

Senator **Lugar**. Mr. Chairman, as I understand, there are other options additionally. One might be that payments do not go to farmers that have an income of $100,000 or more. That is one thing bandied about. Or if you have a farm and you have gross sales of $500,000, you do not get any payments.

Given a small amount of money, who in America do we try to help? So I would say, in addition to target prices, and that is a very dramatic instance, I have seen varied options, and the Secretary will speak for himself, but there are better ways that you can affect the incidence of payments.

Targeting payments would change, perhaps, the income for the wealthy farmer unless he had certain flexibility with other assets.

Senator **Conrad**. Well, just what I presented is, in economic terms, a zero of sum gain. And there is no question what the outcome is to the agriculture sector. You cut a billion and a half. Everything else remains the same. Farm income goes down. The distribution of that income could be affected by the policy choices we make. But there is no question that aggregate income to the farm sector goes down.

And if the President's proposal to us in this climate is for farm income to go down, I very much hope we reject that suggestion because, to me, it is without merit.

Dr. **Gardner**. Well, can I say that there is a longstanding discussion of how farm programs fit in with farm incomes. And there is something to what you say about the short term especially. But, after all, we have spent a lot of money over the years on farm programs, and it is not clear that you get anything like the benefits to farmers that correspond to the costs that have been imposed.

I think it is quite clear there are better ways to do these things. And I think that is what we want to search for in the 1990 bill discussions.

Senator **Pryor**. Thank you, Dr. Gardner.

Senator Cochran is here. We appreciate your being here. Are you here to bring the administration farm bill to the table?

Senator **Cochran**. Well, I am here to express the genuine belief that no one in the administration is recommending lower farm prices. I do not think that is a part of the administration's program at all. And for anyone to suggest that it is, it is just not saying something that is consistent with the facts.

I think we would all like to see farmers have the highest possible income and do as well as anybody can imagine. So, to suggest that anybody is trying to reduce farm income with a proposal in the budget is really not in keeping with the facts, in my judgment.

But I got here a little late and did not hear all the testimony. You did not say that, did you? [Laughter.]

[The prepared statement of Senator Cochran can be found on p. 319.]

Thank you, Mr. Chairman.

Senator **Pryor**. Thank you, Senator Cochran. Senator Cochran, our friend Dr. Gardner has had a hard time saying anything this morning because I think that Secretary Yeutter is going to be here in a few days, and he's kind of waiting on that.

Dr. Gardner, we appreciate you. We hope we have not taken unfair advantage of your precarious situation this morning. We appreciate very much your being here.

Dr. **Gardner**. I enjoyed being here. May I leave now?

Senator **Pryor**. Yes, sir, you may leave. Yes, sir. Certainly. [Laughter.]

We have now two very distinguished professors. I'm going to ask, if they would, if they would sit on this side. Dr. J. William Uhrig, professor of agricultural economics, Purdue University. I know you are a constituent of Senator Lugar. And Dr. Rob Martin, Auburn University, Auburn, Alabama. That would be, of course, the constituent of Senator Heflin.

We appreciate very much both of you coming. We're going to invoke the 5-minute rule. The full text of your prepared statement will be, of course, placed in the record, and then we will open for questions.

Dr. Uhrig, we will call on you first. And I'm wondering if Senator Lugar would like to make an introduction, a proper introduction of you.

Senator **Lugar**. Simply to say that you have a very distinguished witness, Mr. Chairman. I note that because Dr. Uhrig may not be able to get to this in as short a time as 5 minutes. He has offered tables of production costs in the Delta and in the North Central areas and in the Southeast, detailing cost analysis.

Senator **Pryor**. Very good.

Senator **Lugar**. The question was raised, I think by yourself, how this might have shaped up 5 years ago. That would be interesting. But as a target or a standard, this testimony is right on target in responding.

Senator **Pryor**. Excellent.

Dr. Uhrig.

STATEMENT OF J. WILLIAM UHRIG, PROFESSOR, AGRICULTURAL ECONOMICS DEPARTMENT, PURDUE UNIVERSITY, WEST LAFAYETTE, IN

Dr. **Uhrig**. Thank you very much, Mr. Chairman.

INTRODUCTION

It is, indeed, a pleasure to represent the Midwest. I've spent most of my professional life in the Midwest, at both Iowa State University and Purdue University for the last 23 years. Currently I'm on a sabbatical leave on the east coast working with WEFA, which is the agricultural group of Wharton Econometric Forecasting Associates.

CENSUS DATA

I represent the Midwest, and since I've only been at WEFA for less than 1 month, my experience primarily represents the past several years. It's interesting to me that many of us are zeroing in on the same things. In preparation for this hearing I went back and looked up some census data. In 1982, the Midwest had over

260,000 soybean farmers. That's about half of the total number of soybean farmers. We also have about half of the total acreage. But because of the higher yields in the Midwest, we have 58 percent of the production.

OUTSIDE FACTORS IMPACT PROFITS AND SOYBEAN PRODUCTION

More important, I'd like to say that the Midwest is not unique in terms of factors regarding production, prices and profits. But in recent years, it's been factors outside the farm gate and even outside of the U.S. borders that have had the greatest impact on our profits and our soybean production.

TWO MAJOR POINTS

I wish to make two major points, and I think these zero in or fall in line with several of the things that have already been said.

First, U.S. soybean producers are being replaced in major markets due to highly subsidized oilseeds in the Economic Community and the increased competition from other major exporters. World trade leveled off since 1980, and since that time we have had almost a 20 percent decline in U.S. soybean acreage, while other countries have been expanding soybean acreage.

The second point concerns flexibility in planting decisions in the 1990 farm bill. I think you need a choice of what to produce in terms of market conditions as well as the local situations.

From 1964 through 1982, the United States produced from 60 to 75 percent of the world's soybeans. That has dropped below 50 percent in recent years.

I'm pleased to say that the Midwest is competitive in the world soybean markets due to our higher yield. That's not necessarily true in the other production regions. The Midwest has been able to maintain a steady acreage in this declining market, but they have really been prevented from expanding soybeans acreage to capitalize on the increase in world markets due to Government programs that favored other crops. The potential loss of grain deficiency payments and acreage base for future payments has economically forced our producers into producing program crops. This has encouraged overproduction of corn which in turn has led to low world prices of grain. Other countries have responded by expanding soybean production at the expense of other grains.

The 0/92 and the 50/92 program has been referred to earlier. I would simply say that one of the reasons why it has not led to a big increase is when you budget it through with current Midwest prices and yield, it takes approximately $7 a bushel to equal the returns from corn produced under Government programs. And it was even higher than that last year.

I'm concerned about some people who take this to mean we should further reduce the loan and target prices of other commodities. In my judgment, lowering the support relative to soybeans without a unilateral reduction in trade restrictions and government subsidies in other countries would not benefit Midwest farmers. It would be far better to find ways to allow soybean farmers more access to European and other world markets and also allow more flexibility in production decisions.

LOSS OF MARKET SHARE TO OTHER MAJOR EXPORTERS

The loss of market share to other major exporters, especially South America, is apparently due to their production costs being lower than for many U.S. producers. However, our Midwest farmers can compete if given a chance. There are also agronomic as well as economic benefits to increasing soybean production. I think that's been referred to in prior testimony, and there's a lot of research at Purdue on this showing that including soybeans in the crop rotation lowers the production costs of both corn and soybeans, and results in fewer environmental problems.

ONE ALTERNATIVE IS TO ALLOW THE MIDWEST FARMERS TO EXPAND SOYBEAN PRODUCTION IN ORDER TO BE MORE COMPETITIVE IN WORLD MARKETS

Naturally, the Midwest would like to have high prices and freedom to produce large crops. Currently, we have low to medium prices with Government restrictions on production. One alternative is to allow the Midwest farmers to expand soybean production in order to be more competitive in world markets. There are potential economies to scale to be achieved as Midwest producers increase their soybean acreage.

SURPRISING DATA

I was rather surprised to find, in looking up the data, that over 60 percent of our Midwest soybean farmers harvest less than 100 acres of soybeans.

THERE ARE SEVERAL PROPOSALS BEING CONSIDERED TO INCREASE PRODUCTION FLEXIBILITY IN THE 1990 FARM BILL

There are several proposals being considered to increase production flexibility in the 1990 farm bill. I just will say that time does not allow an explanation or evaluation of these. I believe they have merit and need to be evaluated both by policy research analysts as well as knowledgeable producers.

NEGOTIATE A REDUCTION IN TRADE BARRIERS AND SUBSIDIES IN MAJOR EXPORT MARKETS

The issue of increasing U.S. share of soybeans is more difficult. One alternative, which is probably the least costly, is to negotiate a reduction in trade barriers and subsidies in major export markets. This is being attempted in the GATT negotiations. If this fails, then some form of export subsidy and/or deficiency payment or price support program for soybeans needs to be strongly considered. The first reaction is likely to be that new programs for soybeans are too costly. The question to ask, given the competitive world trade environment that current exists and is likely to prevail for the next 5 years, is: Can we afford not to develop a competitive program for U.S. soybean producers? The alternative is a continued loss of world soybean markets and further reduction in soybean acreage.

Senator PRYOR. Doctor, if you could take about another minute, we would appreciate it.

Dr. UHRIG. I will do that.

Senator PRYOR. Thank you.

THE BEST ALTERNATIVE APPEARS TO BE A PROGRAM WHICH INCREASES U.S. ACCESS TO WORLD SOYBEAN MARKETS

Dr. UHRIG. Given a 5-year planning horizon, the best alternative appears to be a program which increases U.S. access to world soybean markets. This is more important than the planting flexibility issue, in my judgment. With increasing exports, which will lead to improved prices, the problems due to a lack of flexibility will be greatly diminished. Until this occurs, soybean producers need legislation to provide flexibility. Both problems need to be addressed in the 1990 farm bill.

If you want to turn to the charts very briefly, they emphasize the points I had, and you can do this at your own leisure.[9] The first chart shows the slow increase in domestic use of soybeans and a sharp downturn in our exports. The second chart shows a steady increase in world use of soybeans. The third chart shows a sharp decline in U.S. soybean planted acreage, and it's very dramatic when you see it presented in graphic form.

The next chart shows the leveling off I mentioned in 1980 of world soybean trade, and the final chart I want to talk about shows that the EEC oilseeds imports dropped from 90 percent of their total needs down to 50 percent. If their imports had remained toward the 90 percent, we probably wouldn't have the problems we have in the current farm legislation.

[The prepared statement, tables, and charts of Dr. Uhrig follow:]

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[9] The charts referred to appear on pp. 371 to 377.

Testimony of Dr. J. William Uhrig 2-1-1990

My name, affiliation, and location is Dr. J. William Uhrig, professor of Agricultural Economics, Purdue University, W. Lafayette, Indiana. I am currently on sabbatical leave and associated with the Agriculture group of WEFA, Inc., (Wharton Econometric Forecasting Associates), Bala Cynwyd, PA. I am pleased to have this opportunity to testify at the soybean hearing conducted by the subcommittee on Agricultural Production and Stabilization of Prices. I represent a Midwestern view. Since I have been at WEFA less than one month, my views are influenced primarily by my past experience. This includes over twenty seven years of teaching, research, and extension work in grain marketing and price analysis at Purdue and Iowa State University and ten years of commercial farming experience in Illinois, which included raising soybeans.

A 1982 USDA survey shows that the Midwest had over 260,000 farms growing soybeans. This represented over 50 percent of the US soybean producers. The Midwest harvested over 30 million acres of soybeans in 1982, which was also over 50 percent. The Midwest produced 58 percent of the US total production, due to having the highest average yields of the various regions. The Midwest can be described as having many small to medium sized producers. In 1982, over 60 percent of the farms harvested less than 100 acres of soybeans.[1] While the Midwest is the largest soybean producing region, it is not unique regarding factors that affect production, prices and profits. In recent years, it has been factors beyond the farm gate, and beyond the US borders that have had the greatest impact on soybean production in the United States.

I wish to make two major points:

1) US soybean producers are being replaced in major world markets due to highly subsidized oilseed production in the EC, and increased competition from other exporters. World trade has leveled off since 1980 causing a 19 percent decline in US soybean acreage while soybean acreage in other areas of the world, especially South America's acreage, has increased.

2) Producers need more flexibility in the 1990 Farm bill to provide a choice in the mixture of crops they can produce in response to:

    a. market conditions

    b. local situations

Soybeans have often been referred to as the miracle crop. It was a cash crop, easy to grow, which has a rapidly expanding market over a forty year span of 1940 to 1980. It quickly became the second highest crop in cash receipts. Government involvement in price support activities have been minimal over the past thirty years when compared to other crops. Soybeans are supported by a price support loan which in most years has been below prices received by farmers. Although soybeans are relatively free from direct government programs, production levels are affected by agricultural programs for other commodities.

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[1] Source: Brad Crowder and Cecil Davison, "Soybeans, Background for 1990 Farm Legislation, USDA, ERS, CED, September 1989.

Few soybeans are consumed directly. When a 60 pound bushel of soybeans is processed, it yields about 48 pounds of high protein meal and about 11 pounds of soybean oil. The soybeans that are exported are processed overseas. The rapid growth in soybean production during the 1960s and 1970s arose largely from the growth in export demand. Soybean meal competes with other protein meals for livestock feed and soybean oil competes with substitutable fats and oils.

From 1964 through 1982, the US produced from 60 to 75 percent of the world's soybeans. In recent years, the US share of world production has dropped below 50 percent.

The Midwest is competitive in world soybean markets, due to higher yields than other production regions. Therefore, our Midwest farmers have been able to maintain a relatively steady acreage in a declining market. The decline in soybean acreage has been in other regions, particularly the Southeast. Midwest farmers have however, been prevented from expanding soybean acreage to capitalize on world markets due to Government programs that favor the production of other crops. The potential loss of grain deficiency payments and acreage base for future Government programs (if not planted) economically forces producers to produce corn or other program crops. This has encouraged overproduction of corn in the US which in turn has led to relatively low grain prices. Other countries have responded by expanding soybean production at the expense of grain production.

In an effort to relax the restrictions of the 1985 Farm Bill, producers are allowed to plant soybeans on 0 to 25 percent of their corn base and not lose base acreage for future government programs. With Midwestern production costs and yields, soybeans prices would have to be about $7.00 per bushel at harvest (in 1990) to equal the returns from growing corn in the government program.

I am concerned that some people would take this to mean we should further reduce the loan and target prices of other commodities. It is my judgment that lowering other supports relative to soybeans, without a unilateral reduction in trade restrictions and government subsidies in other countries would not benefit Midwest farmers. It would be far better to find ways to allow US soybean farmers more access to European and other world markets and also allow more flexibility in production decisions.

The loss of market share to other major exporters, especially South America, is apparently due to their production costs being lower than for many US producers. However, our Midwest farmers can compete with major exporters -- if given a chance. There are also agronomic as well as economic efficiencies to be gained by increasing soybean production in the US. University research has shown that Midwest corn yields are higher over time when grown in rotation with soybeans rather than with continuous corn. Also, there are fewer environmental problems and per bushel production costs decline for both corn and soybeans when soybeans are used in a cropping rotation.

Naturally, Midwest producers would like to have high prices and freedom to produce large crops. Currently, they have low to medium soybean prices, with government restrictions on production. One alternative is to allow Midwest farmers to expand soybean production in order to be more competitive in world markets. There are potential economies to scale to be achieved as Midwest producers increase their soybean acreage.

There are several proposals being considered to increase production flexibility in the 1990 Farm Bill. These center around the concept of assigning a normal crop acres (NCA) base to every farm, based on historical plantings of 14 designated crops.

Two bills have been introduced that build on the NCA concept. Senate Agriculture Committee Chairman Patrick Leahy, D-Vt, and ranking minority member of the Senate, Richard Lugar, R-In, joined forces on the Agricultural Competitiveness and Planting Flexibility Act. Senator Rudy Boschwitz, R-Minn also has a plan that he intends to introduce.

The American Soybean Association (ASA) has been discussing a graduated equity loan concept as one way to correct some of the imbalances in current programs and provide growers greater flexibility. Last year, Charles Stenholm, D-Texas and other proposed the idea of a triple base plan to achieve greater flexibility. Congressman Jim Jontz, D-In introduced a bill that addresses sustainability as well as flexibility. These bills would give farmers the option to rotate crops without losing all farm program payments.

Time does not permit an explanation or evaluation of each proposal. Each have merit and need to be evaluated by both policy research analyst as well as knowledgeable producers. All legislation involves a compromise of the various goals and objectives.

The issue of increasing the US share of world soybean trade is more difficult. One alternative which is probably the least costly is to negotiate a reduction in trade barriers and subsidies in major export markets. This is being attempted in the GATT negotiations. If this fails, then some form of export subsidy and/or deficiency payment or price support program for soybeans needs to be strongly considered. The first reaction is likely to be that new programs for soybeans are too costly. The question to ask, given the competitive world trade environment that currently exists and is likely to prevail for the next five years, is can we afford not to develop a competitive program for US soybean producers? The alternative is a continued loss of world soybean markets and further reduction in US soybean acreage.

Given a five year planning horizon, the best alternative appears to be a program which increases US access to world soybean markets. This is more important than the planting flexibility issue. With increasing exports (which will lead to improved prices) the problems due to a lack of flexibility will be greatly diminished. Until this occurs, soybean producers need legislation to provide flexibility. Both problems must be addressed for the 1990 Farm Legislation.

Table 1--Distribution of soybean farms, by acres of soybeans harvested, 1982

Region	Farms by acres of soybeans harvested							Farms growing soybeans
	1-24	25-49	50-99	100-249	250-499	500-999	1,000 or more	
	Percent 1/							Number
Corn Belt	18.4	18.8	23.0	28.3	9.1	2.1	0.3	260,171
Appalachia	37.0	20.6	17.2	15.5	6.2	2.6	.9	60,656
Lake States	20.8	20.3	24.0	26.6	6.7	1.4	.2	59,439
Northern Plains	17.5	21.6	26.1	26.3	6.7	1.4	.2	48,935
Southeast	23.6	18.2	18.3	21.9	11.0	5.2	1.7	35,223
Delta	12.5	12.3	13.8	21.1	18.8	14.2	7.4	30,485
Southern Plains	12.8	20.0	20.3	28.7	14.4	6.7	2.2	5,061
United States	21.2	19.0	21.7	25.3	8.9	3.0	.9	511,229

1/ Totals may not add to 100 percent due to rounding.
Source: 1982 Census of Agriculture.

Source: Brad Crowder and Cecil Davison, "Soybeans, Background for 1990 Farm Legislation, USDA, ERS, CED, September 1989.

Appendix table 8--World soybean trade, annual averages, 1978-82 and 1983-87 1/

Importers	Exporters											
	United States		Brazil		Argentina		China		Other		Total	
	1978-82	1983-87	1978-82	1983-87	1978-82	1983-87	1978-82	1983-87	1978-82	1983-87	1978-82	1983-87
EC-12 (1,000 metric tons)	11,916	9,600	601	1,744	1,368	1,468	0	1	739	802	14,624	13,615
% of importer's imports	81	71	4	13	9	11	0	0	5	6	100	100
% of exporter's exports	55	46	61	83	60	68	0	--	61	71	55	50
Japan (1,000 metric tons)	4,085	4,321	8	136	10	6	135	300	29	44	4,267	4,804
% of importer's imports	96	90	--	3	--	--	3	6	1	1	100	100
% of exporter's exports	19	21	1	7	--	--	82	29	2	4	16	18
Taiwan (1,000 metric tons)	1,054	1,551	0	0	0	0	0	0	0	34	1,055	1,585
% of importer's imports	100	98	0	0	0	0	0	0	0	2	100	100
% of exporter's exports	5	7	0	0	0	0	0	0	0	3	4	6
USSR (1,000 metric tons)	708	573	204	26	410	272	0	389	10	15	1,332	1,273
% of importer's imports	53	45	15	2	31	21	0	31	1	1	100	100
% of exporter's exports	3	3	21	1	18	13	0	38	1	1	5	5
Mexico (1,000 metric tons)	660	1,291	114	67	128	103	0	0	1	3	903	1,465
% of importer's imports	73	88	13	5	14	7	0	0	--	--	100	100
% of exporter's exports	3	6	12	3	6	5	0	0	--	--	3	5
South Korea (1,000 metric tons)	453	840	0	24	0	0	0	2	4	4	457	870
% of importer's imports	99	97	0	3	0	0	0	--	1	--	100	100
% of exporter's exports	2	4	0	1	0	0	0	--	--	--	2	3
Other (1,000 metric tons)	2,859	2,615	54	95	367	320	30	326	430	225	3,740	3,581
% of importer's imports	76	73	1	3	10	9	1	9	11	6	100	100
% of exporter's exports	13	13	6	5	16	15	18	32	35	20	14	13
Total (1,000 metric tons)	21,736	20,792	981	2,091	2,284	2,169	164	1,017	1,213	1,126	26,378	27,196
% of importer's imports	82	76	4	8	9	8	1	4	5	4	100	100
% of exporter's exports	100	100	100	100	100	100	100	100	100	100	100	100

-- = Less than 0.5 percent.

1/ For example, the EC-12's 1978-82 average annual imports of 11.9 million tons of soybeans from the United States (column 1, row 1) represented 81 percent of the EC-12's total soybean imports (column 1, row 2) and 55 percent of total U.S. soybean exports (column 1, row 3). Percentages may not add because of rounding.

Source: United Nations. Commodity Trade Statistics, 1962-87. Calendar year commodity import data reported to the United Nations, edited and expanded by Arthur B. Mackie, Agriculture and Trade Analysis Division, Economic Research Service, U.S. Department of Agriculture, to include nonreporting countries.

Source: Brad Crowder and Cecil Davison, "Soybeans, Background for 1990 Farm Legislation,
USDA, ERS, CED, September 1989.

Table 34--U.S. soybean production costs, 1985-87 1/, 2/

Item	1985	1986	1987
	Dollars per planted acre		
Gross value of production:			
Primary crop	165.96	150.64	172.81
Total	165.96	150.64	172.81
Cash expenses:			
Seed	12.92	10.82	12.03
Fertilizer	5.80	5.01	4.99
Lime and gypsum	.38	.34	.29
Chemicals	12.41	12.37	12.34
Custom operations	4.01	4.01	3.86
Fuel, lube, and electricity	11.62	7.37	9.06
Repairs	7.04	6.79	6.86
Hired labor	2.45	2.53	2.62
Technical services	.05	.05	.05
Total, variable cash expenses	56.68	49.29	52.10
General farm overhead	6.85	7.87	10.87
Taxes and insurance	12.85	13.23	13.71
Interest on operating loans	7.94	6.79	6.51
Interest on real estate	12.38	11.37	12.63
Total, fixed cash expenses	40.02	39.26	43.72
Total, cash expenses	96.70	88.55	95.82
Value of production less cash expenses	69.26	62.09	76.99
Capital replacement	29.60	29.46	29.74
Value of production less cash expenses and capital replacement	39.66	32.63	47.25
Economic (full ownership) costs:			
Variable cash expenses	56.68	49.29	52.10
General farm overhead	6.85	7.87	10.87
Taxes and insurance	12.85	13.23	13.71
Capital replacement	29.60	29.46	29.74
Allocated returns to owned inputs:			
Return to operating capital 3/	1.72	1.09	1.23
Return to other nonland capital 4/	4.99	5.08	5.90
Net land return 5/	48.16	43.64	45.78
Unpaid labor	9.22	9.53	9.86
Total, economic costs	170.07	159.20	169.19
Residual returns to management and risk 6/	-4.11	-8.56	3.62
Harvest-period price (dollars/bu.)	4.86	4.57	5.06
Yield (bu./planted acre)	34.17	32.94	34.15

1/ To estimate the per-unit expense or cost of production from these items, refer to text section "USING COST-OF-PRODUCTION DATA." 2/ Sum of operator and landlord expenses. 3/ Variable expense items multiplied by part of year used and the 6-month U.S. Treasury bill rate (see pg. 11). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in farm sector (see pg. 11). 5/ Of total acres rented, percentage of cash- and share-rented acres multiplied by the average cash and share rent. 6/ Calculated by subtracting total economic (full ownership) costs from gross value of production.

Source: USDA, ERS, Agriculture and Rural Economy Division, "Economic Indicators of the Farm Sector: Costs of Production, 1987, February 1989.

Table 35--Soybean production costs, Delta, 1985-87 1/, 2/

Item	1985	1986	1987
	Dollars per planted acre		
Gross value of production:			
Primary crop	121.93	88.26	113.53
Total	121.93	88.26	113.53
Cash expenses:			
Seed	11.37	9.31	10.96
Fertilizer	6.84	6.06	6.04
Chemicals	8.54	8.53	8.51
Custom operations	2.28	2.30	2.29
Fuel, lube, and electricity	12.58	7.40	9.62
Repairs	7.47	6.95	7.25
Hired labor	2.45	2.49	2.54
Technical services	.05	.05	.05
Total, variable cash expenses	51.58	43.09	47.26
General farm overhead	7.18	6.94	6.79
Taxes and insurance	7.67	7.70	8.06
Interest on operating loans	7.51	5.08	5.96
Interest on real estate	6.13	5.06	4.96
Total, fixed cash expenses	28.49	24.78	25.77
Total, cash expenses	80.07	67.87	73.03
Value of production less cash expenses	41.86	20.39	40.50
Capital replacement	27.80	26.67	27.34
Value of production less cash expenses and capital replacement	14.06	-6.28	13.16
Economic (full ownership) costs:			
Variable cash expenses	51.58	43.09	47.26
General farm overhead	7.18	6.94	6.79
Taxes and insurance	7.67	7.70	8.06
Capital replacement	27.80	26.67	27.34
Allocated returns to owned inputs:			
Return to operating capital 3/	1.74	1.08	1.26
Return to other nonland capital 4/	4.87	4.70	5.60
Net land return 5/	26.03	20.05	23.09
Unpaid labor	9.20	9.38	9.55
Total, economic costs	136.07	119.61	128.95
Residual returns to management and risk 6/	-14.14	-31.35	-15.42
Harvest-period price (dollars/bu.)	4.98	4.88	5.43
Yield (bu./planted acre)	24.47	18.10	20.91

1/ To estimate the per-unit expense or cost of production from these items, refer to text section "USING COST-OF-PRODUCTION DATA." 2/ Sum of operator and landlord expenses. 3/ Variable expense items multiplied by part of year used and the 6-month U.S. Treasury bill rate (see pg. 11). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in farm sector (see pg. 11). 5/ Of total acres rented, percentage of cash- and share-rented acres multiplied by the average cash and share rent. 6/ Calculated by subtracting total economic (full ownership) costs from gross value of production.

Source: USDA, ERS, Agriculture and Rural Economy Division, "Economic Indicators of the Farm Sector: Costs of Production, 1987, February 1989.

Table 37--Soybean production costs, Southeast, 1985-87 1/. 2/

Item	1985	1986	1987
	Dollars per planted acre		
Gross value of production:			
Primary crop	126.71	107.55	133.74
Total	126.71	107.55	133.74
Cash expenses:			
Seed	10.11	9.90	10.28
Fertilizer	12.20	10.70	10.62
Lime and gypsum	2.06	1.96	1.83
Chemicals	14.40	14.04	13.86
Custom operations	5.79	5.65	5.52
Fuel, lube, and electricity	11.87	6.96	8.95
Repairs	9.15	8.27	8.74
Hired labor	2.81	2.79	3.01
Total, variable cash expenses	68.39	60.27	62.81
General farm overhead	4.54	4.58	7.51
Taxes and insurance	6.74	6.82	7.15
Interest on operating loans	3.53	4.80	4.07
Interest on real estate	10.22	6.24	8.02
Total, fixed cash expenses	25.03	22.44	26.75
Total, cash expenses	93.42	82.71	89.56
Value of production less cash expenses	33.29	24.84	44.18
Capital replacement	24.36	23.11	24.23
Value of production less cash expenses and capital replacement	8.93	1.73	19.95
Economic (full ownership) costs:			
Variable cash expenses	68.39	60.27	62.81
General farm overhead	4.54	4.58	7.51
Taxes and insurance	6.74	6.82	7.15
Capital replacement	24.36	23.11	24.23
Allocated returns to owned inputs:			
Return to operating capital 3/	2.18	1.43	1.57
Return to other nonland capital 4/	4.20	4.03	4.88
Net land return 5/	25.04	23.00	25.59
Unpaid labor	10.56	10.51	11.31
Total, economic costs	146.01	133.75	145.05
Residual returns to management and risk 6/	-19.30	-26.20	-11.31
Harvest-period price (dollars/bu.)	4.93	4.86	5.38
Yield (bu./planted acre)	25.70	22.13	24.87

1/ To estimate the per-unit expense or cost of production from these items, refer to text section "USING COST-OF-PRODUCTION DATA." 2/ Sum of operator and landlord expenses. 3/ Variable expense items multiplied by part of year used and the 6-month U.S. Treasury bill rate (see pg. 11). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in farm sector (see pg. 11). 5/ Of total acres rented, percentage of cash- and share-rented acres multiplied by the average cash and share rent. 6/ Calculated by subtracting total economic (full ownership) costs from gross value of production.

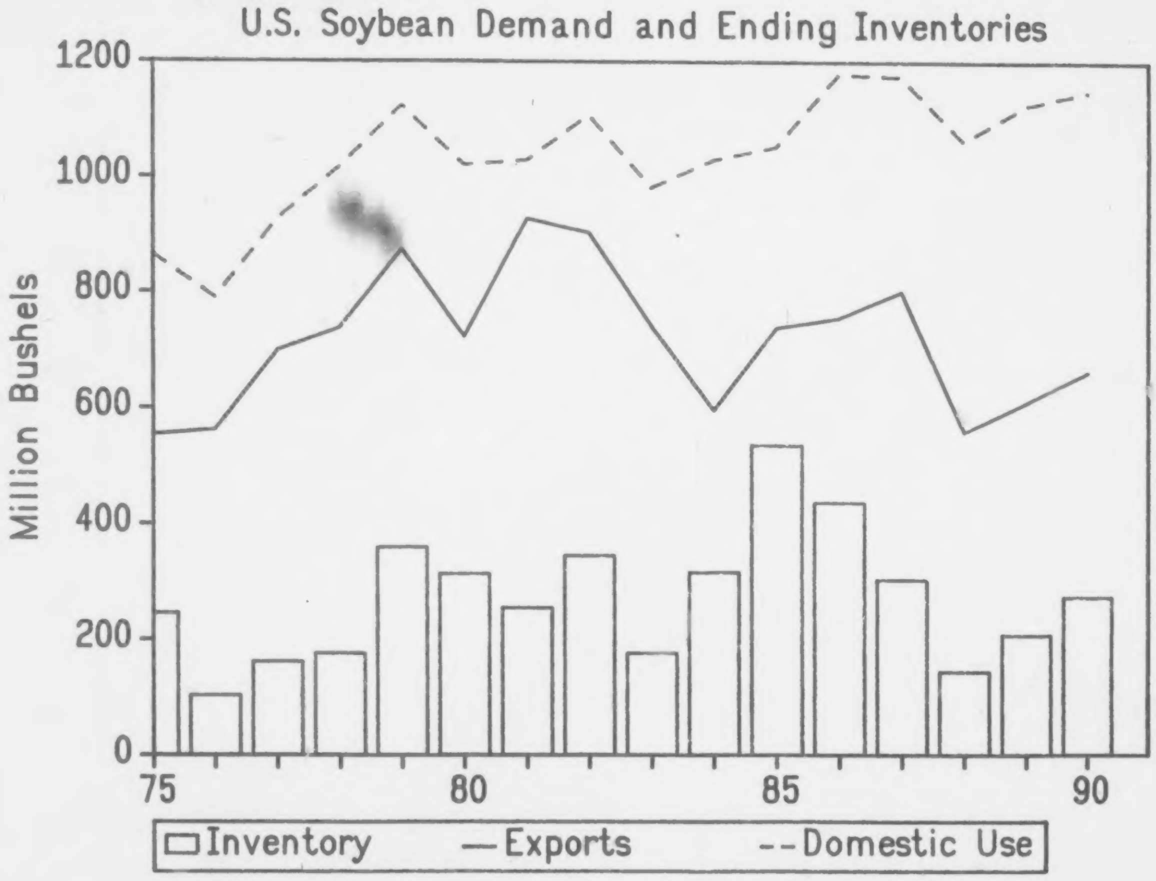
Source: USDA, ERS, Agriculture and Rural Economy Division, "Economic Indicators of the Farm Sector: Costs of Production, 1987, February 1989.

Table 36--Soybean production costs, North-Central, 1985-87 1/, 2/

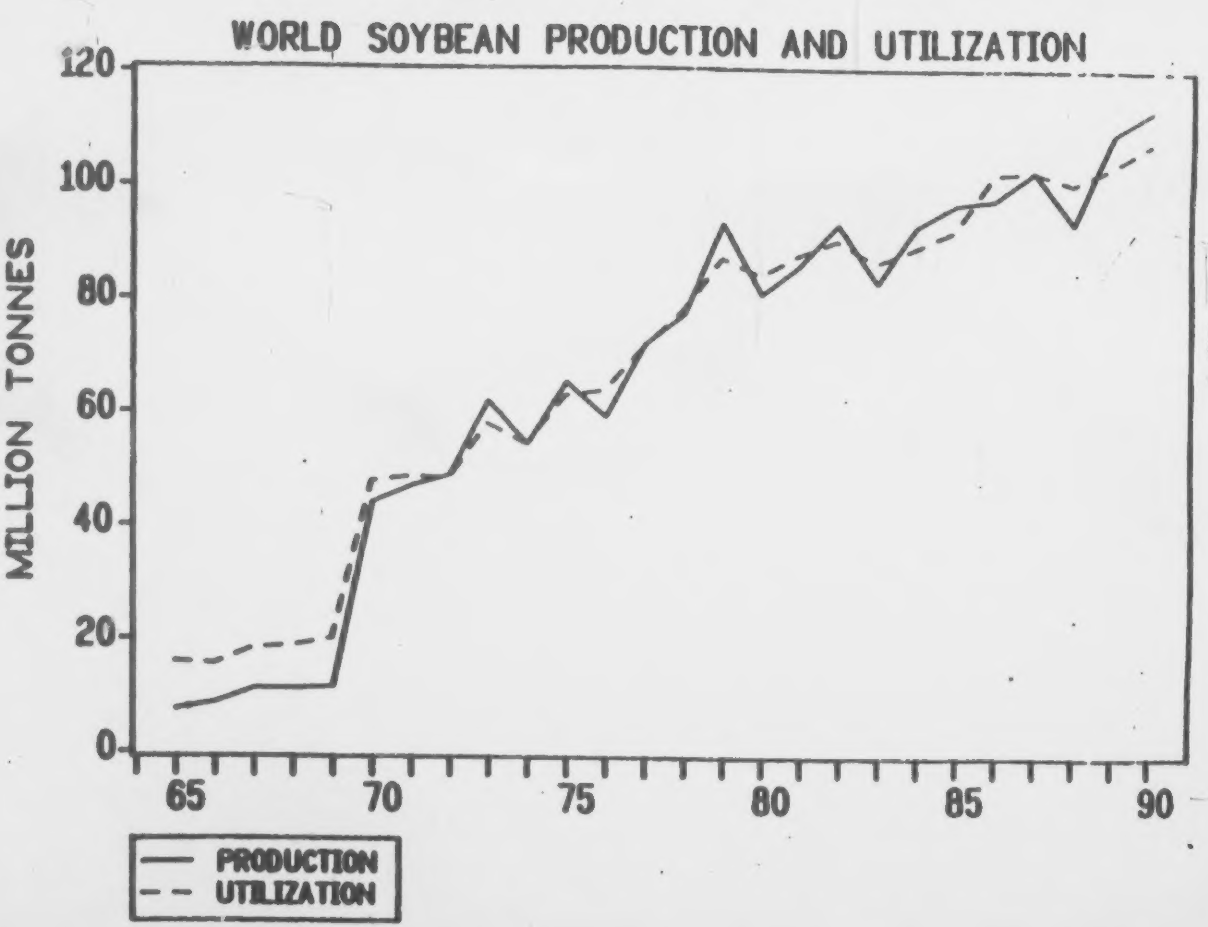
Item	1985	1986	1987
	Dollars per planted acre		
Gross value of production:			
Primary crop	183.50	170.43	190.06
Total	183.50	170.43	190.06
Cash expenses:			
Seed	13.82	11.27	12.48
Fertilizer	4.34	3.90	4.00
Lime and gypsum	.14	.14	.14
Chemicals	12.90	12.90	12.90
Custom operations	4.06	4.11	3.96
Fuel, lube, and electricity	11.35	7.42	8.96
Repairs	6.53	6.52	6.52
Hired labor	2.38	2.50	2.59
Technical services	.05	.05	.05
Total, variable cash expenses	55.57	48.81	51.59
General farm overhead	7.21	8.59	12.15
Taxes and insurance	15.19	15.40	15.74
Interest on operating loans	8.88	7.46	6.95
Interest on real estate	14.21	13.50	14.80
Total, fixed cash expenses	45.49	44.95	49.64
Total, cash expenses	101.06	93.76	101.23
Value of production less cash expenses	82.44	76.67	88.83
Capital replacement	31.01	31.05	30.98
Value of production less cash expenses and capital replacement	51.43	45.62	57.85
Economic (full ownership) costs:			
Variable cash expenses	55.57	48.81	51.59
General farm overhead	7.21	8.59	12.15
Taxes and insurance	15.19	15.40	15.74
Capital replacement	31.01	31.05	30.98
Allocated returns to owned inputs:			
Return to operating capital 3/	1.63	1.03	1.17
Return to other nonland capital 4/	5.18	5.33	6.10
Net land return 5/	57.62	51.82	53.10
Unpaid labor	8.96	9.41	9.73
Total, economic costs	182.37	171.44	180.56
Residual returns to management and risk 6/	1.13	-1.01	9.50
Harvest-period price (dollars/bu.)	4.83	4.52	4.99
Yield (bu./planted acre)	38.01	37.74	38.08

1/ To estimate the per-unit expense or cost of production from these items, refer to text section "USING COST-OF-PRODUCTION DATA." 2/ Sum of operator and landlord expenses. 3/ Variable expense items multiplied by part of year used and the 6-month U.S. Treasury bill rate (see pg. 11). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in farm sector (see pg. 11). 5/ Of total acres rented, percentage of cash- and share-rented acres multiplied by the average cash and share rent. 6/ Calculated by subtracting total economic (full ownership) costs from gross value of production.

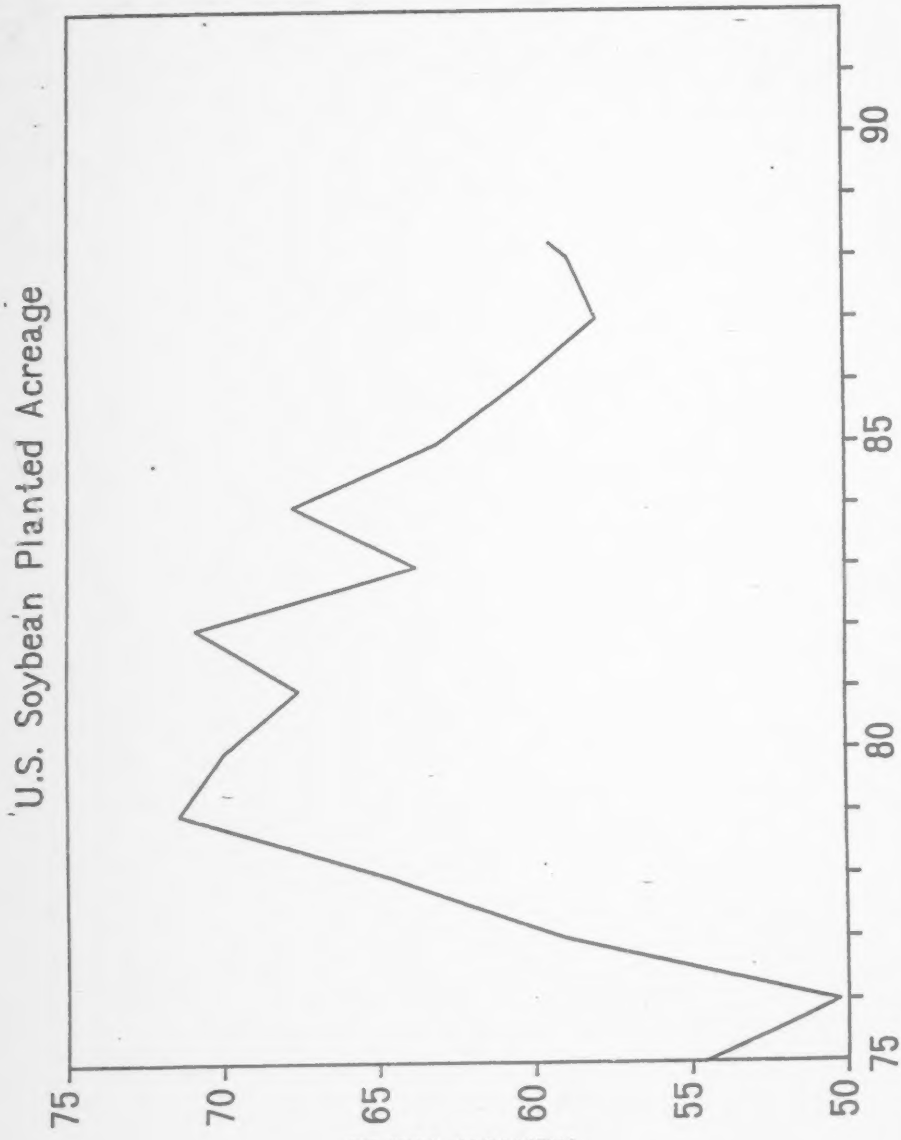
Source: USDA, ERS, Agriculture and Rural Economy Division, "Economic Indicators of the Farm Sector: Costs of Production, 1987, February 1989.



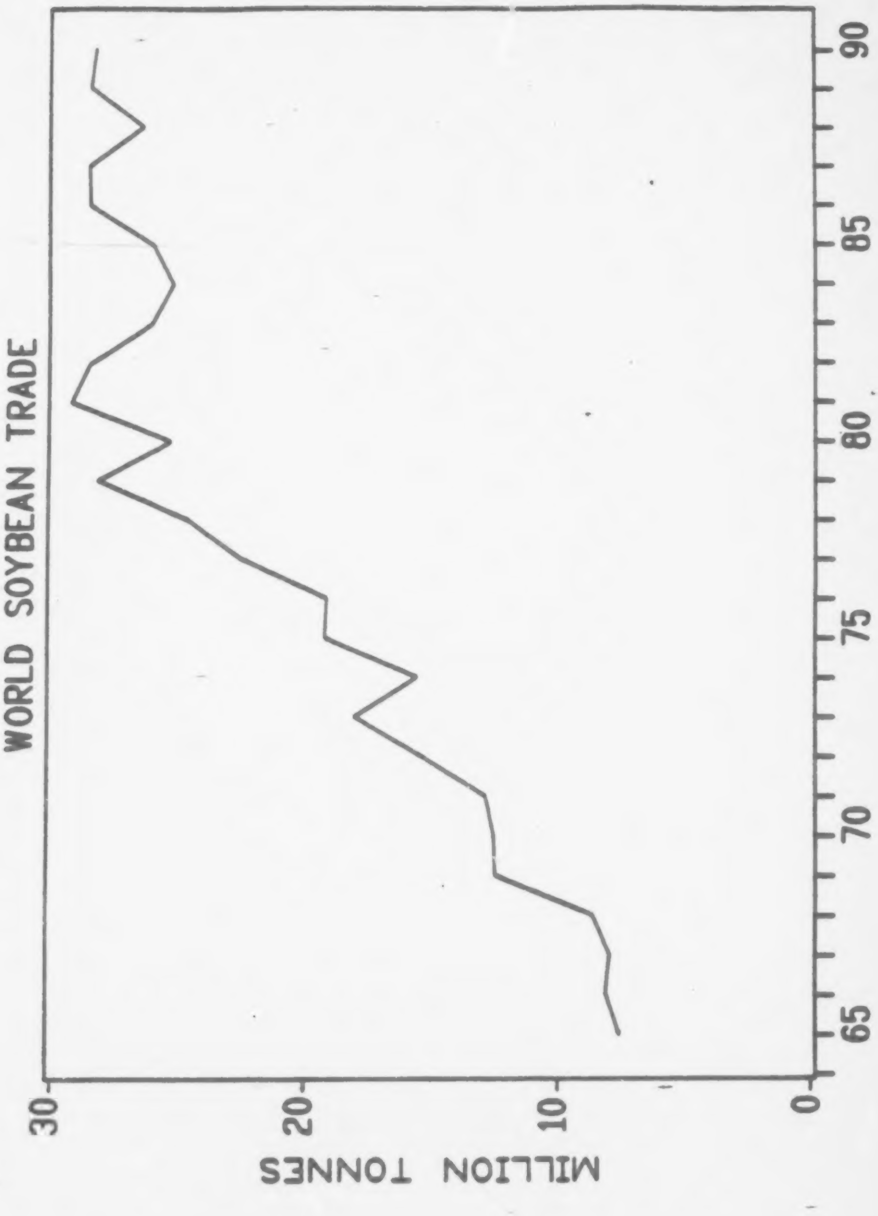
U.S. Soybean Demand and Ending Inventories



WORLD SOYBEAN PRODUCTION AND UTILIZATION



U.S. Soybean Planted Acreage


WORLD SOYBEAN TRADE
MILLION TONNES
0
10
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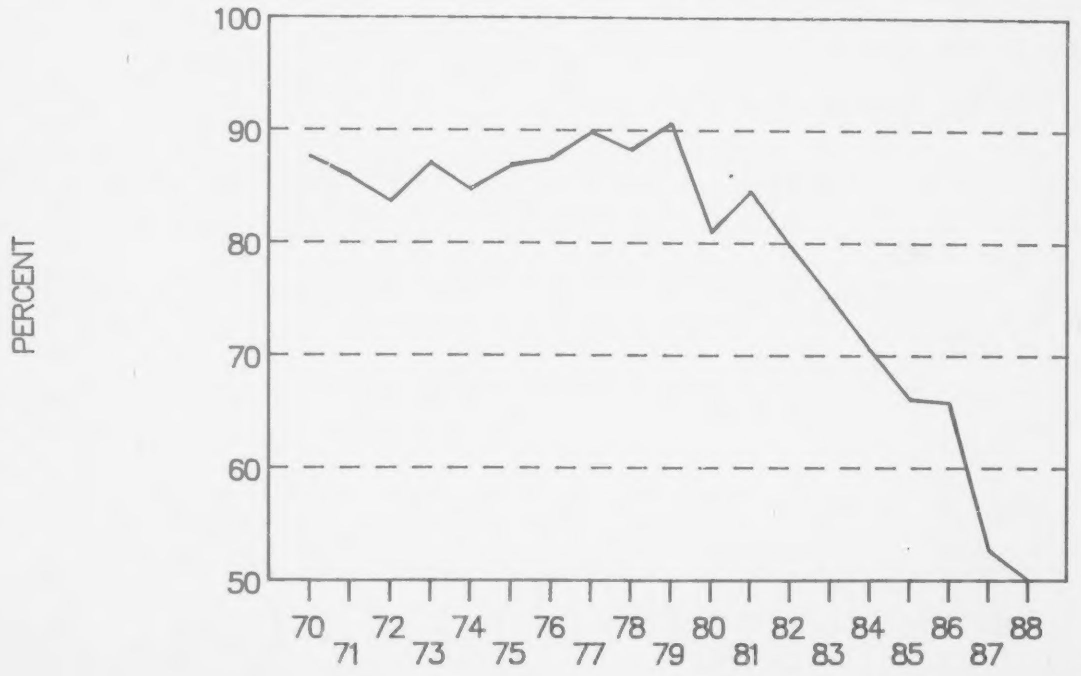
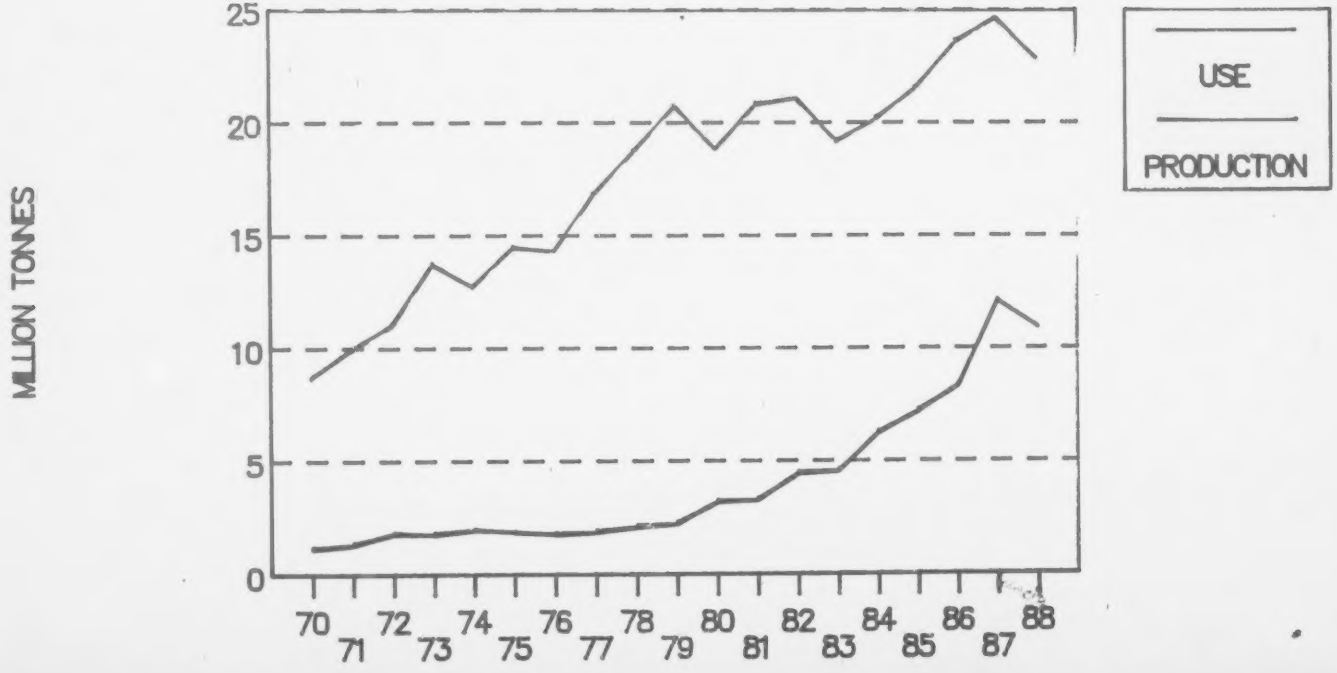
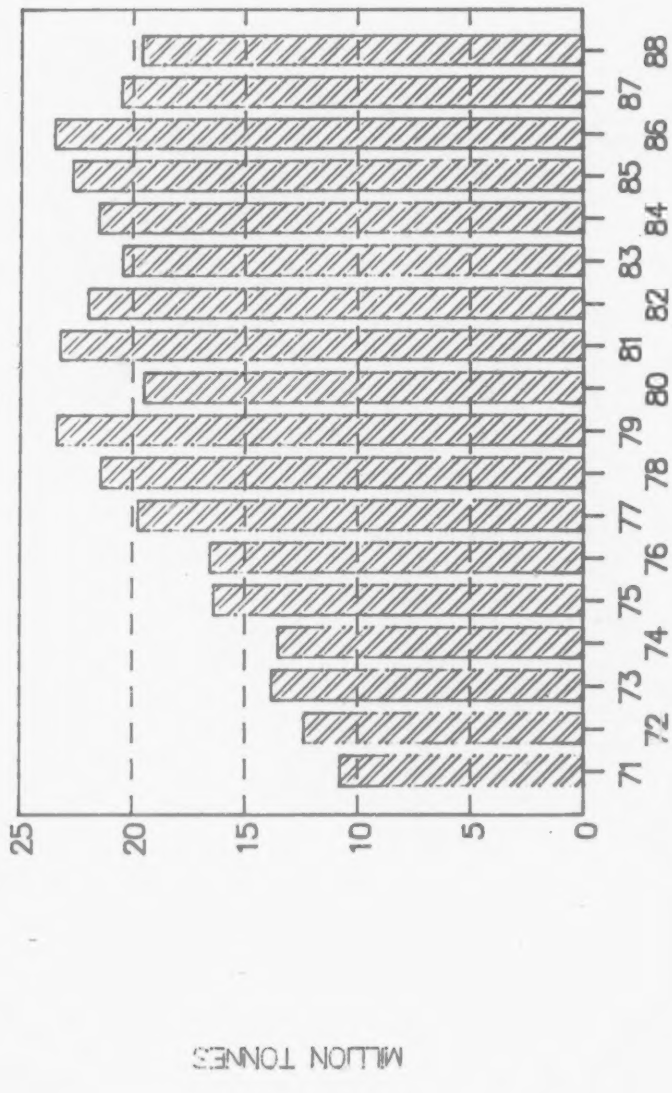
EEC—12 OIL IMPORTS AS A % OF CONSUMPTION



EEC—12 OILSEED
PRODUCTION & USE



EEC–12 OILSEED & MEAL IMPORTS
MEAL EQUIVALENTS



Senator PRYOR. Dr. Uhrig, thank you. We're going to have some questions for you in a moment, but we will now call on Dr. Rob Martin, Auburn University. We look forward to your statement, Dr. Martin. Your full statement will be placed in the record.

STATEMENT OF ROB MARTIN, PROFESSOR, AGRICULTURAL ECONOMICS, AUBURN UNIVERSITY, AUBURN, AL

Dr. MARTIN. Thank you, Senator Pryor and members of the subcommittee.

INTRODUCTION

It is an honor to be here today to discuss a topic of great importance to farmers and the agricultural industry. My background and job responsibilities are in farm management research, extension, and teaching. In developing my remarks for this hearing I have reflected my knowledge and understanding of how soybeans fit into Alabama agriculture. However, I believe that my observations are valid for many other agricultural areas across the South.

SOYBEAN INDUSTRY IN THE SOUTH IS AT A POLICY CROSSROAD

The soybean industry in the South, as it has been said this morning, is at a policy crossroad which will determine where we go in the decade of the 1990's. To clarify that point, we must look back at the recent past of the soybean industry in the South. I will concentrate on Alabama.

When cotton production and grain production for livestock feeds decreased in the 1960's, soybean production caught hold in Alabama, and it grew beyond any ambitious expectations that might have been held. Soybean activity throughout the State and marketing activity came rapidly and replaced other traditional activities in the State in many places. Hindsight shows a clear case of soybeans as a successful alternative agricultural enterprise for Alabama in the 1970's and 1980's.

Now, by this time, the end of the 1980's and the beginning of the 1990's, we've been through the growth period. Export demands are down; adverse weather patterns have given us difficulties in the 1980's. We have disease problems and some pest control problems, and we have lower profits and in some cases about the same yield that we had in the mid-1970's. Maintaining yield is possible through application of research-proven practices, but input costs are high.

The peak production of soybeans in Alabama was during the 1979 and 1980 crop-years when 2.2 million acres were planted. Soybeans accounted for well over one-half of our crop acreage in the State.

By 1987, we were down to .5 million acres of soybeans planted, and over 2 million acres of cropland that had been planted in the previous 10 years were out-of-crop uses or were idle.

The Conservation Reserve Program (CRP) has provided a great opportunity to recapture limited income over several years and to preserve fragile soils. However, CRP contracts in Alabama for all nine signup periods account for only .5 million acres. This leaves more than 1.5 million acres of underutilization of cropland from the peak years of soybean production in the State.

Alabama and most areas of the South have land resources above the marginal lands targeted by the CRP in plentiful supply to expand our current crop and livestock production levels. The financial problems that occurred simultaneous to the recent downsizing of Alabama and Southern crop agriculture are well-documented. We don't have time to go into those.

THE PRIMARY KEY TO STRENGTHENING SOYBEAN AGRICULTURE IN THE SOUTH AND ALABAMA OVER THE NEXT 5 YEARS IS PRICE STRENGTH

The soybean industry is important to the improvement of financial conditions in Alabama and Southern agriculture. The primary key to strengthening soybean agriculture in the South and Alabama over the next 5 years is price strength. Management strategies are important, but there's little management incentive without some additional price strength.

This is established by looking at some typical production costs for soybeans in Alabama following recommended practices that have been established by the Alabama Cooperative Extension Service.

To cover costs of doing business, a typical Alabama soybean farmer must recover $165 per acre (see table 1). Now, we'll go into that a little bit further. Soybean production costs are also estimated from producer surveys that are in my colleague's paper and in the published form. For Southern soybeans, Southeastern soybeans, in 1988 the Economic Research Service, U.S. Department of Agriculture, has budgeted costs that are very similar to the costs that are reported for recommended practices in Alabama, and they are both in the paper.

The budgeted analyses or the producer survey costs reflect yields of approximately 27 bushels per acre. 1988 was a good year. However, soybean yields averaged less than 22 bushels per acre in Alabama over a 12-year period, the most recent one (see table 2).

It is clear that the costs that occurred over those 12 years are not going to reoccur in the next 5 years. But since we have no upward or downward trend in soybean yields in Alabama, any one of those bushels or any one of those physical yields could occur in the next 5 years due to weather patterns and other patterns. Thus, the 1990 cost estimates for recommended practices or the 1988 costs from the producer survey are valid to reflect cost of production in current dollars over the next 5 years.

What I have done and is presented is I have taken the past yield experiences and applied those cost estimates to get breakeven prices (table 3).

MY MAIN TWO POINTS

The last two points, and my main two points, are this: Profit that results from the production of any crop or livestock enterprise will ultimately determine that enterprise its place in the organization of an individual farm or a farming region.

Calculations presented in this testimony indicate that the breakeven soybean price in Alabama over the next 5 years will fall in the range of $6.09 to $6.29 per bushel. These results suggest that public farm policy that would depress soybean prices below these price levels by encouraging increased production in other regions would severely damage Alabama's soybean production, and my feeling is the Southeast as well.

[The prepared statement of Dr. Martin follows:]

The Department of

AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY

STATEMENT ON THE SOYBEAN INDUSTRY IN ALABAMA AND THE SOUTHERN REGION

PRESENTED TO THE SENATE AGRICULTURAL COMMITTEE
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND
STABILIZATION OF PRICES

FEBRUARY 1, 1990

ROB MARTIN
PROFESSOR
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Senator Pryor and Members of the Subcommittee on Agricultural Production and Stabilization of Prices, it is an honor to be here today to discuss a topic of great importance to farmers and the agricultural industry. My background and job responsibilities are in farm management research, extension, and teaching. In developing my remarks for this hearing I have reflected my knowledge and understanding of how soybeans fit into Alabama agriculture. However, I believe that my observations are valid for many other agricultural areas across the South.

The soybean industry in the South is at a policy crossroad that will determine which path the industry takes during the 1990's. To clarify that point, we must look back at the recent past of the soybean industry in the South. I will concentrate on Alabama.

When cotton production and grain production for livestock feed including draft animals were severely downsized in the 1960's, soybean production caught hold in the South and grew beyond the most ambitious expectations of farmers and agricultural leaders. Soybean activity throughout the production and marketing chain came rapidly into being and dominated other traditional activities in many areas of Alabama and the South.

Thus, soybeans provided a strong economic incentive to attract able young managers into farming. Strong export potential and the Port of Mobile provided a very positive outlook in Alabama agriculture at that time. Growth of broiler production and soybean processing at Decatur and Guntersville also increased domestic use of soybeans. Hindsight provides a clear case of soybeans as a successful alternative agricultural enterprise in Alabama in the 1970's and early 1980's.

Soybeans in Alabama at the end of the 1980's had moved through the growth phase. Export demand had declined due to the strengthening of the U. S. dollar and increased foreign production. Adverse weather patterns of the 1980's, diseases, and pests appear to have increasingly negative impacts on soybean yields. Maintaining high yields is possible through the application of research-proven practices, but input costs are high.

The peak production of soybeans in Alabama was during the 1979 and 1980 crop years when 2.2 million acres were planted. Total crop activity including double-cropping at that time was 3.9 million acres. Thus, at the end of the 1970's soybeans accounted for well over one-half of cropland activity in the State.

By 1987, only .5 million acres of soybeans were planted and total crop production amounted to only 1.7 million acres. In 1987, 2.1 million acres that had been cropped less than ten years earlier were put to other than crop production uses or were idle.

The Conservation Reserve Program (CRP) has provided a great opportunity to recapture limited income over several years and to preserve fragile soils. However, CRP contracts in Alabama for all nine signup periods account for only .5 million acres. Land in Alabama used for crop production in 1987 plus land in CRP is approximately 1.7 million acres below the cropland utilization in the peak soybean production years at the end of the 1970's.

Alabama and most areas of the South have land resources above the marginal lands targeted by the CRP in plentiful supply to expand crop and livestock production above the levels experienced at the end of the 1980's. The financial problems that occurred simultaneous to the recent downsizing of Alabama and Southern crop agriculture are well documented.

The soybean industry is important to maintaining and possibly improving the financial condition of Alabama and Southern agriculture. The primary key to strengthening soybean agriculture in Alabama and the South over the next 5 years is price strength. Management strategies are important, but there are few management incentives without some additional price strength.

Typical production cost for producing soybeans in Alabama by farmers who follow recommended practices have been estimated by the Alabama Cooperative Extension Service, Table 1. A land cost of $20.00 per acre is included to reflect rental value or the scheduled annual payments of principle and interest on a mortgage on land valued in the $400.00 to $600.00 range per acre. Thus, to cover costs of doing business a typical Alabama farmer must recover $165.25

per acre. Farmers with lower mortgage payments will need less income; farmers with larger payments will need more.

TABLE 1. COSTS OF PRODUCING FULL-SEASON SOYBEANS IN ALABAMA AND THE SOUTHEAST

	Alabama (1990, Recommended Practices)	Southeast (1988, Producer Survey)
	— dollars per acre —	
Variable Costs	$78.49	$69.88
Fixed Cost		
Non-land	66.76	60.29
Land	20.00	30.00
Total Cost	165.25	160.29

(Source: Alabama Cooperative Extension Service and Economic Research Service, USDA)

Table 1 also includes soybean production costs estimated from a producer survey taken in the Southeastern United States in 1988. These estimates are published annually by the Economic Research Service of the U. S. Department of Agriculture. The Southeast producer survey costs for 1988 are similar to the 1990 budgeted costs presented for recommended practices in Alabama.

The budget analyses for 1990 recommended practices and the 1988 producer survey publication also reflected similar soybean yields of 27 and 26.6 bushels per acre, respectively. However, Alabama soybeans averaged only 21.9 bushels per acre over the last 12 years and no significant trend in soybean yield is apparent in the data since 1978 (Table 2).

Table 2. ALABAMA SOYBEAN YIELDS, 1978-1989

Year	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Bushels/Acre	21	26	15	23	25	20	21	27	23	17	26	21

(Source: Alabama Agricultural Statistics, annual issues)

Average production costs that occurred over the period 1978 to 1989 will not likely be experienced over the next five years. However, yields experienced over this period are likely to reoccur since no upward or downward trend is reflected in the data. Thus, 1990 costs for recommended practices and 1988 costs from the producer survey can be used to reflect soybean production costs over the next five years in 1990 and 1988 dollars, respectively. Since input costs have not changed greatly in the last two years, results of both methods are useful in evaluating soybean profit potential over the 1990 to 1995 period.

Table 3 presents the breakeven soybean prices needed by an Alabama farmers for each annual soybean yield level experienced between 1978 and 1989. Breakeven prices are presented using both the recommended practices basis for estimating soybean production cost (Alabama) and the producer survey cost basis (Southeast). Thus, two results are given, but both results reflect the most recent 12 year history of Alabama soybean yield experience.

Table 3. ESTIMATED BREAKEVEN SOYBEAN PRICES BASED ON ALABAMA YIELD HISTORY BETWEEN 1978 AND 1989

Observed Soybean Yields Year	Bu/Acre	Alabama (1990, Recommended Practices)	Southeast (1988, Producer Survey)
		(dollars per bushel)	
1978	21	6.39	6.19
1979	25	5.37	5.20
1980	15	8.94	8.67
1981	23	5.83	5.65
1982	25	5.37	5.20
1983	20	6.71	6.50
1984	21	6.39	6.19
1985	27	4.97	4.82
1986	23	5.83	5.65
1987	17	7.89	7.65
1988	25	5.37	5.20
1989	21	6.39	6.19
Average		6.29	6.09

Profit that results from the production of any crop or livestock enterprise will ultimately determine that enterprise its place in the organization of an individual farm or a farming region. Profit can be increased, or in some cases maintained, through increased yields, increased price, and/or decreased cost. In the case of Alabama soybeans increases in yield and decreases in cost are extremely difficult to accomplish.

Calculations presented in this testimony indicate that the breakeven soybean price in Alabama over the next 5 years will fall in the range of $6.09 to $6.29 per bushel. These results suggest that public farm policy that would depress soybean prices below these price levees by encouraging increased production in other regions would severely damage the soybean industry in Alabama.

Senator PRYOR. Thank you very much, Dr. Martin.

Sort of a bottom-line question here, and I hope you can answer it in one or two words. Let's see if you can. I'll pose this to each of you.

If nothing changes, if we send a bill to the President, he signs it, say in August, July, June, whenever, there's no graduated equity loan, there's no marketing loan, there are no changes in the soybean program, do you say to the average soybean farmer in your respective parts of the country that there's reason for encouragement or discouragement?

Dr. UHRIG. In one word, discouragement.

Senator PRYOR. Dr. Martin.

Dr. MARTIN. I would be somewhat encouraged by the last 2 years when we have risen in production from .5 million acres to .6 million acres with price strength that our farmers have responded to. So I would be a bit encouraged if the changes did not depress the future prices of soybean.

Senator PRYOR. Thank you.

Senator Lugar.

Senator LUGAR. Mr. Chairman, the testimony of the two witnesses certainly illuminates a large part of the dilemma that geography and difference in costs imposes on policy. I think both witnesses are to be commended for putting the facts in front of us so that we can begin to try to deal with it. For instance, in Professor Uhrig's testimony, I note the figures for 1985 to 1987 in which he's illustrated costs and he finally gets a residual returns to management after all the economic costs have been subtracted from the gross value of production. In 2 of the 3 years, in the North-Central area there would have been a residual return to management, slight loss in 1986 but back to a $9.50 gain in 1987. (See p. 369 for this table.) But in the Southeast table right adjacent to it, in all 3 years you have negative residual return to management of $19 one time, $26 the next, and $11. (See p. 370 for this table.)

In other words, without what the second witness, Dr. Martin, has presented, unless you have a higher prices, you can't get there. Your gross value of your production has to be a good bit higher, and $6.09, $6.29 may express what that is.

Now, on the one hand, we've been talking about the competition of our country with the rest of the world, unleashing our best acres, thinking about flexibility so that we plant more and recapture our market share. But then the testimony, if you look at it strictly from the standpoint of the Southeast, or the Alabama figures that have been presented, would be that if this additional production occurs and price goes down, that situation becomes worse.

Now, how all of this is reconciled, I've never quite figured out, and that, of course, is why we have compromises around the table. We try to look at this as one country as opposed to one crop. It isn't really one crop. There are extraordinary differences in terms of yields and costs by geography here. And if you rig the thing in one way, you get a distortion geographically as people look at the margin and see what they want to do.

So I have no solution to the problem. I just compliment the witnesses at least in putting the facts in front of us so that sort of clearly, year by year, we don't have the distortion of a drought one year or some strange thing. But in the Alabama figures, we have the whole case; you have a very good idea of what yields are sort of year after year, pretty good idea of cost, and somehow or other figure crunchers have to work out something that, in my judgment, leads us to increase our role in the world and at the same time it doesn't put everybody in the South out of business.

Correspondingly, if we have a policy to try to keep everybody in the South in business in a high-cost area, it is very likely that our total production is going to decline. If they impose restrictions on production elsewhere, I don't expect we're going to be all that competitive abroad with very high prices to meet high costs.

So I'd simply once again raise the dilemma and for the benefit, at least, of those watching the hearing, there is some recognition of these extraordinary differences region by region that we have to grapple with.

Senator **Pryor**. Thank you, Senator Lugar.

Senator Conrad.

Senator **Conrad**. I think in the interest of time, Mr. Chairman, I'll forgo my questions.

Senator **Pryor**. Thank you, Senator Conrad. We next then would have Senator Bond and then Senator Cochran.

Senator **Bond**. Following up on Senator Lugar's observations about the grave differences in productivity in the different regions of the country, what are your ideas for a program that would take care of and provide equitable treatment to those different regions? First, Dr. Uhrig.

Dr. **Uhrig**. Well, I think the individual farmer looks at all of his alternatives in making production and marketing plans. Since we have computers to help evaluate these plans, he can look at alternative prices and yields for several crops. So it depends a lot on what you come up with on the alternative crops that the farmers in different parts of the United States can produce in future Government programs.

In the Midwest, we have a lot of flexibility in terms of producing corn, soybean, or wheat or even other crops. As Dr. Martin has said, they have far less flexibility in the South. So I think that's one of the real restrictions.

I think that the farmers will react and plant the mix of crops, given the rules and flexibility provided in Government programs, and you're asking what should those rules be. I don't know as I'm prepared to give you an answer off the top of my head.

Senator **Bond**. Could you give us a hint? Obviously, we have to come up with a solution, and you gentlemen are the experts. And we are fascinated by your analysis, but where do we go from analysis?

Dr. **Uhrig**. I think overall you must look at production-marketing decision from the standpoint of efficiency of the United States. I think that if you come up with a program that will foster efficiency it will serve all members—serve the country the best.

Senator **Bond**. So don't try to recognize regional differences?

Dr. **Uhrig**. I think it would be very difficult.

Senator **Bond**. Dr. Martin.

Dr. **Martin**. Senator, I appreciate your question, and I have a limited response, although we will continue to look for that solution.

A simple improvement to the Southern soybean producer would be to better be able to use the advantage of double cropping with wheat and to be able to reduce the land charges in all of these figures that we presented you by allowing the wheat set-aside land to be utilized with the soybean crop in the summertime. The idea there being that the purpose of the set-aside land is for supply control and income protection in the wheat area, and the soybean area is separate from that. And that would be a solution that would benefit the Southern producer.

Dr. **Uhrig**. I would just further point out that we have a large variation among farmers within our own State and our own Midwest. The figures quoted in the budgets provided are averages. When you use averages, you have some producers with higher costs and some with lower costs. There's quite a wide range in production costs, particularly in a good year.

Senator **Bond**. Thank you, gentlemen.

Thank you, Mr. Chairman.

Senator **Pryor**. Thank you, Senator Bond.

Let's see. I believe Senator Cochran is next.

Senator **Cochran**. Mr. Chairman, I was going to ask what the witnesses thought of the graduated equity loan proposal that we've had presented to us as something the committee ought to consider for inclusion in the farm bill.

Dr. Uhrig, do you have an opinion on that?

Dr. **Uhrig**. I would defer answering until we did further analysis on it. We had rather short notice to prepare for this hearing, and I have not made a detailed analysis of the proposal.

Senator **Cochran**. Dr. Martin.

Dr. **Martin**. Senator, neither have I done a detailed analysis, but I did think about that issue and I would like to add a comment. I contrast that to the market loan for cotton, and I would say that that would be price enhancing to the domestic soybean producer, and we've illustrated this morning that that is extremely important in the South. And so from that standpoint, it has a plus view to me. I would need to look at it more closely to give a definitive total answer.

Senator **Cochran**. One suspicion that some of the producers in my State have expressed to me about the flexibility proposal that's before the committee and which was addressed by Dr. Uhrig, is that it will increase so much the soybean production in the Midwest that with the higher yields and the lower cost of production in that region you would virtually drive soybean producers in the South out of business.

What's your reaction to that suspicion?

Dr. **Uhrig**. Again, it goes back to the alternatives that the farmers have and what the farm bill has to say about corn support programs and wheat support programs. Our producers prefer to produce corn and have always had the largest acreage of corn. They need a mixture, as I have said. And I think because of the yield increases and technology and the ability to handle the crop now and the technology that's involved in some of the difficult problems of controlling weeds, that that may be overstated.

Again, I think it takes a lot more detailed analysis than a top-of-the-head answer would provide.

Senator COCHRAN. Dr. Martin, what would be your answer to that?

Dr. MARTIN. Flexibility, Senator, without price protection on the downside could—a limited view, again, and without a complete analysis, could seem to greatly threaten the Southern producer in terms of ability to stay in business over the long run.

Senator COCHRAN. Mr. Chairman, thank you very much.

Senator PRYOR. Thank you, Senator Cochran.

Senator McConnell, we're glad you have joined us.

Senator MCCONNELL. But just putting aside regional differences for a minute and getting back to Senator Lugar's excellent observations about the tradeoffs here, in business on the one hand and recapturing world markets on the other. Of the various options that this committee will be considering; graduated equity, getting along similarly to what we did for as Senator Pryor indicated the status quo, which of those approaches would best allow us to recapture lost world markets?

Both of you in either order.

Dr. MARTIN. Senator, I, taking the first response, would have to say that I did not look at the international picture with the limited time and the charge I had in coming.

I think it is very worthy of study, and it has been studied in various places, and I would like to have a chance to review that.

Senator MCCONNELL. Dr. Uhrig.

Dr. UHRIG. My first observation that the graduated loan would certainly make us competitive in world markets. Everything I have been able to learn about the proposal indicates that. The only concern has been the cost and I am not prepared to give you any estimate of the cost.

My feeling is perhaps that this is the type of program that we need to go to and the costs are going to have to be paid if we want to stay competitive in soybeans.

Senator PRYOR. Thank you, Senator McConnell.

We want to thank our panel. We are going to leave the hearing open for questions for a period of about 10 days. There may be other members of the committee and also I may have some follow-up questions we will submit in writing.

We appreciate very much your contributions to the committee. Thank you both.

Dr. UHRIG. Thank you very much.

Dr. MARTIN. It was good to be here.

Senator PRYOR. We will call our third panel now.

Mr. Marlyn Jorgensen, president, American Soybean Association; Thad Freeland a soybean farmer from Tillar, Arkansas; Floyd Anderson, chairman, the National Sunflower Association, Brocket, North Dakota—I presume that is one of Senator Conrad's constituents—Tom Graham, Jr., Graham Farms, Washington, Indiana.

We appreciate your being here with us today and we will call on Mr. Jorgensen, as our first witness of this panel.

We will invoke the 5 minute rule. We appreciate your cooperation. Your full statement will be placed in the record.

Thank you.

STATEMENT OF MARLYN JORGENSEN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION (ASA), GARRISON, IA

Mr. **Jorgensen**. Thank you, Mr. Chairman, I appreciate the opportunity to appear before this committee this morning to testify on this very urgent and pressing need.

INTRODUCTION

I am a soybean farmer from Garrison, Iowa. My family raises soybeans, corn, oats, hay, hogs and cattle.

THE CURRENT SITUATION

Today, U.S. soybean farmers stand at a crossroads. During the past 10 years, soybean farmers have watched as their industry has lost valuable ground to our foreign competitors. (See attachment No. 1 in the prepared statement, p. 403.)

In 1979, the United States was the No. 1 supplier in the world in soybeans and soybean products. Today we have fallen to No. 3 as the supplier of soybean meal and to No. 4, as the supplier of soybean oil. We are still the No. 1 supplier of soybeans, but we are fast losing ground there, too. More soybeans are produced outside the United States, than in the United States. Current trends project that South America will outharvest the United States by 1995.

The U.S. soybean industry is migrating to South America. If we lose the soybean industry, can the loss of the poultry and livestock industry be far behind?

If nothing is done to reverse these trends, we have lost a valuable opportunity to reverse U.S. acreage loss and discourage more foreign expansion.

THE CAUSE

Current domestic farm policy encourages foreign soybean production and discourages U.S. production by making the U.S. Government the buyer of last resort at a guaranteed price in the event of surplus. At the same time, the U.S. Government's farm commodity programs are a major contributing factor in the decline in U.S. soybean production.

THE ROLE OF U.S. FARM PROGRAMS

Even when market prices indicate a shift to soybeans, U.S. farmers see more attractive returns for other crops because of Government programs. For these understandable dollars-and-cents reasons, as well as to avoid losing base acreage, U.S. farmers like myself, maximize production of program crops at the same time that the soybean market is calling for expansion.

ABROAD

Foreign producers, however, can and do respond to soybean market price incentives by expanding acreage and production. Whenever the world price approaches the soybean loan rate, the CCC acquires forfeited soybean loans.

While the U.S. Government builds stocks in times of surplus, competitors such as Brazil and Argentina find markets for their production. They do not stockpile; they sell, while we store. The current soybean program was developed when the United States did not face massive foreign soybean competition or unfair trade practices. It supported income by supporting price, which benefited soybean producers, not only in the United States, but also foreign producers.

ASA'S 1990'S TASK FORCE

To get ready for the farm bill, the ASA formed a Policies in the 1990's Task Force to develop soybean policy options. After nearly 50 listening sessions in nearly 30 States, farmers resoundingly told us they want a change in the soybean programs.

They identified six key principles they want included in the 1990 farm bill:

First, farmers want planning freedom so they can make decisions on what is best for their farm and their profitability.

Second, farmers want income protection so that they have a safety net when soybean prices are very low.

Third, farmers want Government policies that encourage U.S. soybean production, not their foreign competitors.

Fourth, farmers want no Government stockpiles of soybeans. They believe market increases should benefit the farmer and not the Government.

Fifth, farmers want to protect the environment that is the foundation for their livelihood.

Sixth, farmers want opportunities to profit from expanding world markets, such as those in Eastern Europe and the Soviet Union and from the development of new uses for the soybean, such as soybean oil ink.

THE GRADUATED EQUITY LOAN PROGRAM

Based on these principles, soybean farmers have developed a graduated equity loan (GE loan). The GE loan program includes income protection and planting flexibility as its foundation. It provides farmers with an incentive to grow soybeans in response to the market. It puts soybeans on a more equitable footing with other commodity program crops. It places foreign competitors at greater risk by removing the artificial price floor previously set by the current nonrecourse loan program.

Briefly described, the GE loan program would be voluntary. A soybean farmer would be eligible for a loan based on a formula which equates to target prices and set-asides for corn and cotton. The percentage of production eligible for the loan would be determined by stock levels as set by USDA. When stocks are low and prices are high, a smaller portion would be eligible for loan. When stocks are high and prices low, a higher portion would be eligible.

But there would always be a portion of a farmer's production at market risk. (See attachment No. 7 in the prepared statement, p. 416.)

The farmer could repay the loan at the lower of the posted county price or the county loan rate. An important part of the program is that the farmer would give up the right to forfeit his soybeans as a repayment of the loan, so that Government stocks would be avoided and foreign competitors would not benefit from price floors.

There would be no soybean acreage set-aside. Soybean farmers cannot support the establishment of soybean acreage set-aside, especially when part of the soybean problem is already loss of acreage. The GE loan formula already reflects the Acreage Reduction Program levels of other crops. Remember, only a portion of a farmer's soybean crop would be eligible for the loan.

SUMMARY

Soybeans are produced in nearly 30 States—from North Dakota to Florida and from New Jersey to Texas. Farmers have regional differences in costs of production, et cetera. But soybean farmers from East to West, North to South, have united around a program that provides both income support and flexibility. A program for soybeans in the 1990 farm bill must include both.

Some have said that this program does not bring enough acreage into soybean production, but the GE loan was not designed to artificially buy acreage. Others say that this program does not have a high enough level of income support, but the program was not designed to guarantee an artificially high level of income.

A graduated equity loan was designed to give farmers the freedom and support to respond to, and compete in the world market.

Finally, we believe flexibility must work for both farmers with base and without. We believe there must be equity in returns for farmers in different regions and different farming situations. We support equitable treatment for soybeans in the government's farm programs.

The 1990 farm bill offers the opportunity for change, to reverse current trends, to restore balance crops, to expand demand, to increase prices, to provide planting freedom, to support farmers when prices are low.

Soybean farmers are not looking for handouts. They ask only that you help create a level playing field so they will have an equal chance to compete.

Mr. Chairman, and members of the committee, soybean farmers across the United States look forward to working with you to solve these problems.

Thank you, very much.

Senator PRYOR. Thank you, Mr. Jorgensen. We appreciate very much your being here, participating, sharing with us the views of, not only yourself, but also the Association.

[The prepared statement and attachments 1-7, of Mr. Jorgensen and responses to Senator Kerrey follow:]

TESTIMONY OF THE AMERICAN SOYBEAN ASSOCIATION
PRESENTED BY PRESIDENT MARLYN JORGENSEN BEFORE THE
SENATE SUBCOMMITTEE ON AGRICULTURAL
PRODUCTION AND STABILIZATION OF PRICES
UNITED STATES SENATE
FEBRUARY 1, 1990

THE 1990 FARM BILL

Thank you Mr. Chairman and good morning. I'm Marlyn Jorgensen from Garrison, Iowa, where I farm soybeans, corn, oats, hay, hogs and cattle. I'm here today as President of the American Soybean Association (ASA). ASA is a national non-profit organization representing U.S. soybean farmers with members in 29 states. ASA seeks to increase the opportunity for U.S. farmer profitability through its market development, research, government relations and trade policy programs.

It's a pleasure to be here today before the Senate Subcommittee on Agricultural Production and Stabilization of Prices to discuss a proposal for the 1990 Farm Bill that has been endorsed north to south and east to west by an overwhelming number of soybean farmers.

The Current Situation

Today, U.S. soybean farmers stand at a crossroads. During the past ten years, soybean farmers have watched as a viable industry has lost valuable ground to our foreign competitors. (Attachment #1)

In 1979, the U.S. supplied 84 percent of the soybeans sold in the world market, 42% of the soybean meal sold and 37% of the soybean oil sold. We were the #1 supplier in all three products.

The picture is vastly different today. We've fallen from #1 to #3 as the supplier of soybean meal behind Brazil and Argentina and from #1 to #4 as the supplier of soybean oil behind the European Community, Argentina and Brazil. We're still the #1 supplier of soybeans, but we're fast losing ground.

Over the past ten years, the world trade in soybeans and soybean products has grown steadily - more than 20 percent. Recent USDA figures show that foreign production has increased an amazing 72% during that time while U.S. production has dropped 15%. For every acre we cut, they planted 1.3 acres. (Attachment #2)

In Brazil and Argentina alone, production has increased 112%, acreage 64%, and exports in soybeans and soybean products from 94-214%. Current trends project that South America will outharvest the U.S. by 1995 and outproduce us by the year 2000. (Attachment #3)

The U.S. soybean industry is migrating to South America. Soybean meal is an important feed ingredient for poultry, hogs, cattle and dairy. Since the Japanese are investing heavily in broiler production in Brazil, they appear to expect ample feed supplies there in the future. If we lose the soybean industry, can the loss of the poultry and livestock industries be far behind?

Something must be done now to reverse these trends. If we wait until the 1995 Farm Bill, there may not be much of a soybean industry to save. We will have lost a valuable opportunity to reverse U.S. acreage loss, and discourage more foreign expansion.

The Cause

What's the cause of these discouraging trends? Soybean farmers believe that, inadvertently, U.S. farm policy has contributed to the present situation.

Current domestic farm policy encourages foreign soybean production and discourages U.S. production by making the U.S. government the buyer of last resort at a guaranteed price in the event of surplus. At the same time, the U.S. government's farm commodity programs are a major contributing factor in the decline in U.S. soybean production.

The Role of U.S. Farm Programs

In the U.S. - Since the 1985 Farm Bill reduced program crop loan rates at a faster pace than target prices, U.S. farmers experience greatly increased risk (and cost) from not participating in farm programs. As government program participation increased, the ability of much of U.S. soybean production to respond to higher soybean market prices decreased. For example, estimated 1989 cash price returns from soybeans ($113.99/acre) cannot compete against cash plus government returns from cotton ($241.91/acre), corn ($156.49/acre), or rice ($330.17/acre). Before government income support is figured in, soybeans have a $31 per acre advantage over corn. However, after government payment to corn, farmers see a $42.50 per acre advantage for corn over soybeans. (Source: Sparks Commodities, Inc.)

Even when market prices indicate a shift to soybeans, U.S. farmers see more attractive returns from government programs for other crops. For these understandable dollars-and-cents reasons, as well as to avoid losing base acreage, farmers maximize production of program crops. (Attachment #4)

Abroad - Foreign producers, however, can and do respond to soybean market price incentives by expanding acreage and production. Foreign producers grow more soybeans when the cash price of soybeans is relatively more profitable than the cash price of alternative crops. And even when the cash price is not more attractive, countries with high production subsidies, like the European Community, still grow more soybeans. Since the 1985 Farm Bill, the average farm cash price of soybeans has been relatively more lucrative than the farm cash price of, for example, corn, in 1986, 1987 and 1988. USDA price projections for 1989 put cash returns about equal for both crops but adding in potential government deficiency payments tips the scale toward planting more corn.

A second, but equally important, incentive to foreign soybeans expansion is the rigid nature of the current U.S. soybean program. The 1985 Farm Bill authorized continuation of a non-recourse loan program for soybeans. The 1986 loan rate of $5.02 per bushel was reduced to $4.53 a bushel by 1989. The Secretary is authorized to reduce the soybean loan rate to $4.50 a bushel and it may not be reduced below that level.

By maintaining a non-recourse loan program, the U.S. government has demonstrated that whenever the world price approaches the soybean loan rate, the CCC acquires forfeited soybean loans. This has the effect of supporting the soybean price here and abroad. Our policy of having the U.S. government absorb stocks off the market in time of surplus sends the powerful signal to our competitors that we will prevent the world price from falling below $4.53 a bushel.

While the U.S. government builds stocks in times of surplus, competitors such as Brazil and Argentina find markets for their production. They don't stockpile. They sell - while we store. In short, when a surplus of soybeans exists, the U.S. soybean program guarantees foreign competitors a soybean price -- and income -- above a true supply/demand driven market price. The current soybean program was developed when the U.S. did not face massive foreign soybean competition. It was developed as an income support program and very effectively supported income by supporting price - the problem is that it benefitted soybean farmers around the world, not just in the U.S. Since the U.S. soybean farm program provides foreign competition with an insurance policy against very low prices, they see little risk in increasing production.

Consider the Brazilian or Argentine farmer who wants to clear more virgin land for soybean production. He and his banker know it takes several years to bring virgin land into production, but because the current U.S. government program limits his risk, the return is worth it. In Brazil especially, it takes years, because Brazil has an unusually acid soil type which must be modified to accommodate soybean production. After one year to clear the land, limestone is applied for one and a half years to three years, without any crop production, to condition the soil suitably for soybean planting.

The Brazilian farmer and his banker are willing to bring virgin land into production, without any cash income for several years from the land, because both know the U.S. non-recourse soybean loan program allows accurate prediction of the minimum world soybean price and limits his risk. Since Brazil and Argentina are efficient soybean producers, this minimal risk provides an incentive to expand.

Loss of Market Share

The results are very clear. As U.S. producers cut back, foreign producers expand, resulting in loss of market share for the U.S. This loss of market share means loss of farm income which translates into lost jobs and taxable income. It also means fewer jobs and industries related to exports and farming. If the United States had only maintained its 1979 share of world trade, U.S. exports in recent years in soybeans and soybean meal would total 330 million bushels more. At $6 a bushel, that is almost $2 billion in lost income potential or the 1989 production of my home state of Iowa, or the combined production of Alabama, Arkansas, Georgia, Kentucky, Mississippi, Missouri and Tennessee.

There are those who say that U.S. soybean farmers cannot compete with South American producers. Yet, a USDA report released in October of last year showed that the cost of producing soybeans in Brazil is higher than in the U.S., even in the Southeast and Delta areas. The report also shows that our farmers in the Midwest are competitive with Argentine producers.

The study showed that cost of production for producers in the Delta was above the cost of production in Argentina. However, when the cost of transportation in South America is factored in, our producers are far more competitive. The report indicates that U.S. producers need the ability to grow more soybeans in order to compete. (Attachments #5 & 6)

We can compete on the basis of cost of production especially including transportation costs, but we can't compete with $15/bushel soybean subsidies like those available in the European Community.

The situation as it stands seems bleak, but soybean farmers believe overwhelmingly that there's hope for the future - if we take steps now to make the needed changes.

ASA's 1990s Task Force

In December 1987, the American Soybean Association formed a Policies for the 1990s Task Force to develop soybean policy options for approval by soybean farmers. Nearly 50 "listening" sessions were held throughout the soybean-producing states to give farmers an opportunity to voice their opinions and share their concerns. By design, more than one-half of the farmers involved were not members of ASA.

Farmers resoundingly told us they want a change. They set six key principles they want included in the 1990 Farm Bill:

1. Farmers want planting freedom so that they can make decisions on what's best for their farm and their profitability - not what's best under the government programs.
2. Farmers want income protection so that they have a safety net when soybean prices are very low, without a setaside for soybeans.
3. Farmers want government policies that encourage U.S. soybean production - not their foreign competitors.
4. Farmers want no government stockpile of soybeans. They believe market increases should benefit the farmer and not the government.
5. Farmers want to protect the environment that is the foundation of their livelihood - but with a balance between environmental concerns and profit opportunities.
6. Farmers want opportunities to profit from expanding world markets such as those in Eastern Europe and the Soviet Union and from the development of new uses for the soybean such as soybean oil ink.

The Graduated Equity Loan Program

Based on these principles, soybean farmers have developed a Graduated Equity Loan (GE Loan) program for your consideration. The GE Loan program has income protection and planting flexibility as its foundation. It provides farmers with an incentive to grow soybeans in response to the market. It puts soybeans on a more equal footing with other commodity crops. And it places foreign competitors at greater risk by removing the artificial price floor previously set by the current non-recourse loan program.

Under a voluntary GE Loan program, a soybean farmer would be eligible for a loan based on a formula which equates to target prices and setasides for corn and cotton. The percentage of production eligible would be determined by stocks levels as set by USDA. When stocks are low and prices are high, a smaller portion would be eligible for loan. When stocks are high and prices are low, a higher portion would be eligible. There would always be a portion of a farmer's production at market risk. (Attachment #7)

The farmer could repay the loan at the lower of the posted county price (PCP) or the county loan rate. An important part of the program is that the farmer would give up the right to forfeit his soybeans as repayment of the loan, so that government stocks would be avoided and foreign competitors would not benefit from price floors.

There would be no soybean acreage setaside. Soybean farmers cannot support establishment of a soybean acreage setaside especially when part of the soybean problem is already loss of acreage. In addition, the CCC would never own soybeans. Also, the soybean loan was lowered to reflect the Acreage Reduction Program (ARP) levels of other crops. Only a portion of a farmer's soybean crop would be eligible for the loan.

Analysis of the GE Loan

Analysis of the Graduated Equity Loan has been independently conducted by Dr. Robert Taylor of Auburn University and Sparks Commodities, in addition to the economics staff of ASA. Additional study is currently being conducted by FAPRI. Sparks Commodities show that under a GE Loan program, the declining U.S. acreage trends would be reversed, with acreage predicted to increase 3.3 million acres in 1991.

The Sparks study concluded that, unlike the current situation, in years when soybean market prices were more attractive than corn prices, farmers responded by increasing acres. However, the study assumes a higher corn price relative to soybeans in the latter years, and therefore, does not warrant large increases in soybean acres. Since the corn cash price provides greater relative return than the soybean cash price, acreage increases seen in early years are reduced. However, it is important to note that in each year the soybean acreage is higher with the GE Loan than without it.

The program will not artificially buy huge acreage shifts. It does not significantly distort the market signals but simply puts farmers in the position of responding when the world demand for soybeans calls for expansion.

Annual government cost of the program would increase an average of $56 million according to the Sparks analysis. Acreage shifts as a result of the GE Loan program would result in a savings in total government expense for other farm programs.

The Auburn analysis showed that there is a 50 percent likelihood there will be little or no cost associated with the program in any given year but predicts that total government payments could average $333 million annually.

Sparks Commodities projects that under the GE Loan program, farm income from soybeans would increase by $2.8 billion over the 1991-1995 period for an average of $560 million a year.

Implications of the Graduated Equity Loan Proposal

Flexibility - Flexibility, meaning genuine farmer freedom to make planting decisions, is an essential element of the GE Loan concept. The GE Loan would provide true flexibility by bringing soybean returns more in balance with returns of program crops so that the farmer can make planting decisions from market signals.

The 10/25 program authorized by the 1989 Disaster Assistance Act demonstrated that many farmers are unwilling to give up their deficiency payments to plant for the soybean market price. Producers requested authorization to plant over 3.5 million acres of soybeans on crop acreage bases in the 10/25 signup. However, USDA estimates that less than 1 million acres were actually planted. Unless soybean returns are balanced with those of program crops, flexibility is a hollow term for many producers.

Flexibility is important to farmers for several reasons. They see the agronomic benefits of sound, balanced crop rotations. Crop rotation is a principle of good farm management.

Balanced crop rotations lead to fewer weed, pest and disease problems and, consequently, reduced use of agricultural chemicals. Since soybeans naturally fix nitrogen in the soil, corn produced after soybeans needs less mechanically-applied fertilizer. Balanced crop rotations also mean increased yields, and can reduce the amount of agricultural chemicals and fertilizer needed for crop production. This means reduced inputs and costs, and increased returns.

In summary, flexibility means each farmer would have more control over his farming operations. Rather than government farm programs dictating how much acreage to plant to what crop, farmers could make the decision without losing base acreage or taking a significant financial loss. By bringing soybean returns more in balance with program crops, farmers could see a more "neutral" planting signal from the government and therefore respond to market price signals.

Income Support - Growing foreign competition and the very low prices of the mid-1980's are the driving forces behind the support for soybean farmers for a cushion against extremely low prices.

Under the Graduated Equity Loan proposal, the producer would profit from the market when the price allows it, but would have a minimal income support in times of low prices. Even in a high stocks/low price situation where 75% of a producer's soybean crop would be eligible for the formula loan rate, the producer would always have at least 25% of his crop eligible only for the market price. Since the Graduated Equity Loan would not isolate the producer from market signals, he would see an incentive to increase or decrease production.

By bringing soybeans more in balance with program crops, there would be less incentive for program crop producers to "wildcat," and build current program crop base for future years. This could have beneficial effects on the supply, price and government costs of program crops.

Other Considerations

Importantly, the equity loan feature which allows the producer to repay his loan at the posted county price would support income, not price. This would remove the world price floor now enjoyed by foreign soybean producers as a result of the current soybean program.

Under the Graduated Equity Loan, the government would never acquire ownership of soybean stocks. No costs of loan forfeiture, lost interest or storage costs would occur. Farmers, not the government, would benefit from rising prices.

Some may ask what soybean farmers are willing to "give up" to gain a Graduated Equity Loan. First, they are essentially taking a setaside -- in the formula loan rate rather than in acreage reductions. Second, only a maximum of 75% of the crop would ever be eligible for loan, with less eligible as carryover stocks decrease. Third, soybean farmers would give up the ability to forfeit to the government in lieu of loan repayment.

Summary

Soybeans are produced in nearly 30 states - from North Dakota to Florida and from New Jersey to Texas. Farmers have regional differences in costs of production, yields, rotations, etc. For example, soybeans farmers in the south can't expand their production because higher costs of production and lower yields make the economic returns too low and therefore expansion is too risky. At the same time, farmers in the midwest and north, for example, are locked into production of program crops - again, because of the economic returns. But soybean farmers from east to west and from north to south have united around a program that provides both income support and flexibility. A program for soybeans in the 1990 Farm Bill must include both.

And we believe flexibility must work both for farmers with base and without. There must be equity in the returns for farmers in different regions and different farming situations.

Soybean farmers want a change. An overwhelming 82 percent of the farmers polled support the concepts represented in the Graduated Equity Loan. Farmers want a chance to compete in the world market.

The 1990 Farm Bill offers the opportunity for change - to reverse current trends, to restore balance between crops, to expand demand, to increase prices, to provide planting freedom, to support farmers when prices are low.

Soybean farmers aren't looking for handouts. They ask only that you help create a level playing field so they'll have an equal chance to compete.

American Soybean Assn.
Attachment #1

SOYBEAN PRODUCTION FACTS AND FIGURES

The United States --
- is still the #1 supplier of soybeans in world trade but is being overtaken by foreign competitors.
- has fallen from #1 to #3 as the supplier of soybean meal (behind Brazil and Argentina)
- has fallen from #1 to #4 as the supplier of soybean oil (behind European Community, Argentina and Brazil)

In 1979
U.S. supplied 84% of all soybeans sold in the world market, 42% of the soybean meal and 37% of the soybean oil.

In 1989
U.S. supplied 61% of all soybeans sold in the world market, 16% of the soybean meal, and 16% of the soybean oil.

Loss of U.S. world market share = Lost farm income for U.S. soybean growers

- * 1 point loss of market share = 30 million bushels
- * At 1979 market share, U.S. exports = 330 million bushels greater than in 1988-89.
- * At $6/bushel = $2 billion in lost income potential
- * Equal to 1989 production of either Iowa or Illinois or combined production of AL, AR, GA, KY, MS, MO & TN

Soybean Production (in mmt/billions of bushels)

	1979	1989	Increase/Decrease
U.S.	61.7 (2.3)	52.4 (1.9)	-15%
Foreign	31.8 (1.2)	55.1 (2.0)	+72%
World	93.6 (3.4)	107.5 (4.0)	+15%

World Trade in Soybeans and Soybean Products (in mmt)

	1979-80			1989-90 (est)		
	U.S.	Foreign	World	U.S.	Foreign	World
SB	23.8(84%)	4.6	28.4	15.8(61%)	10.2	26.0
SB meal	7.2(42%)	10.0	17.2	4.4(16%)	23.2	27.6
SB oil	1.2(37%)	2.0	3.2	0.7(16%)	3.4	4.1

American Soybean Association
Attachment #1

Increases/Decreases in World Trade, 1979-1989

	Soybeans	Soybean Meal	Soybean Oil	SB Meal Equivalent Aggregate
U.S.	-33.7%	-39.6%	-45.9%	-35.3%
Foreign	+120.3%	+128.7%	+68.7%	+126.5%
World	-8.6%	+58.8%	+25.4%	+20.6%

Soybean Harvested Acreage (in millions of acres)

	1979	1989	Increase/Decrease
U.S.	70.3	59.4	-15.5%
Foreign	56.9	82.8	+45.5%
World	127.2	142.2	+11.8%

Soybeans in Brazil and Argentina

	1979	1989	Increase/Decrease
Production (mmt)	13.94	29.60	+112%
Acreage (millions)	24.40	40.00	+64%
Exports (mmt)			
Soybeans	3.61	7.00	+94%
Soybean Oil	0.63	1.98	+214%
Soybean Meal	5.84	15.70	+169%

By 1999, if current trends in U.S. production and foreign expansion continue --

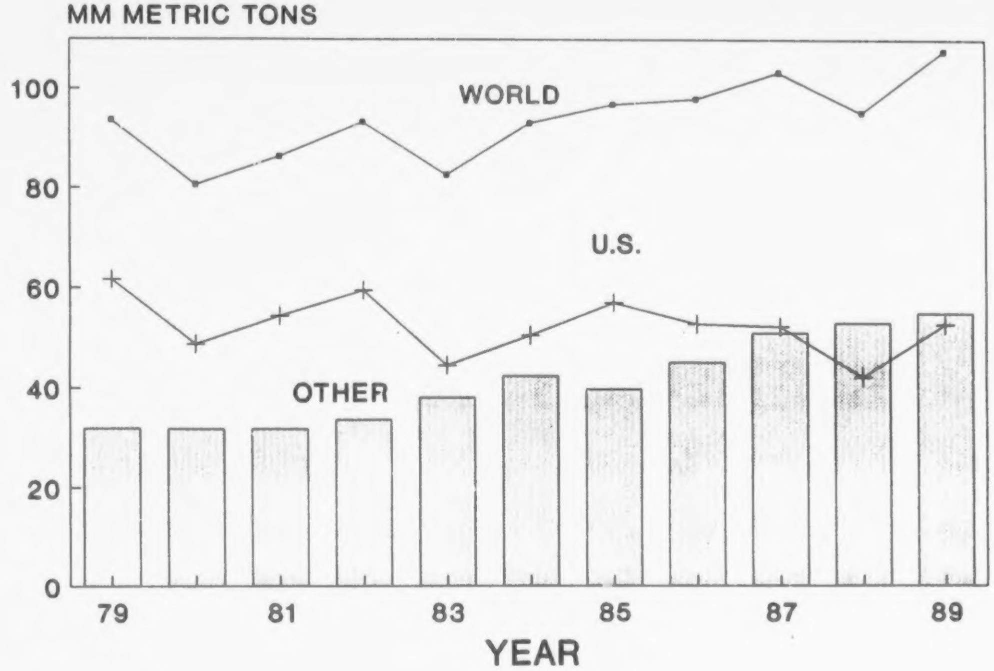
	Brazil/Argentina	United States
Production	41.50	41.83
Acreage (millions)	51.40	43.10
Exports (mmt)		
Soybeans	8.52	9.25
Soybean Oil	2.73	0.23
Soybean Meal	21.47	3.29

Source for all data - USDA

Updated January 1990

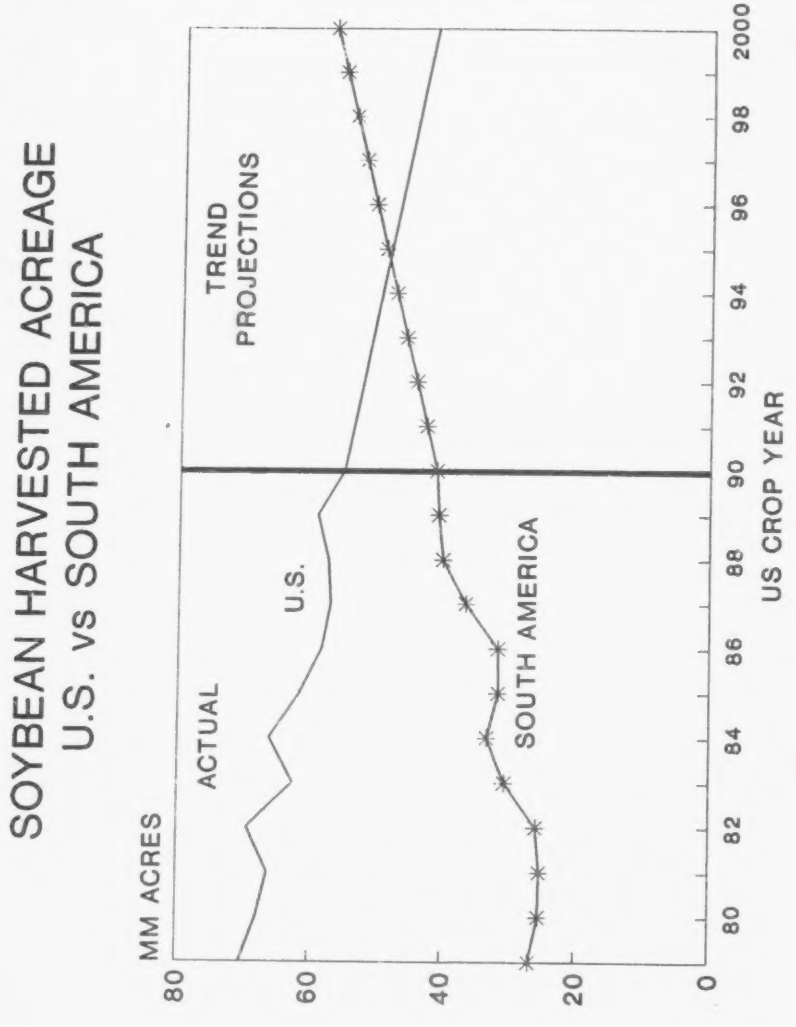
American Soybean Association
Attachment #2

SOYBEAN PRODUCTION



USDA 12/12/89

American Soybean Association
Attachment #3



SOYBEAN HARVESTED ACREAGE
U.S. vs SOUTH AMERICA

American Soybean Assn. #3

BRAZIL AND ARGENTINA TRENDS 1990-2000 (BASED ON 1979-89 DATA)

	EXPORTS (MMT)			EXPORTS		
	SOYBN	SB MEAL	SBOIL	SOYBN MMBU	SB MEAL MMTON	SBOIL MMLB
1979	3.61	5.84	0.63	133	6.4	1389
1980	4.51	9.00	1.21	166	9.9	2668
1981	2.72	8.87	0.97	100	9.8	2138
1982	2.64	9.92	1.29	97	10.9	2844
1983	4.56	9.83	1.42	168	10.8	3131
1984	6.77	11.32	1.5	249	12.5	3307
1985	3.73	10.54	1.09	137	11.6	2403
1986	4.64	11.84	1.68	170	13.1	3704
1987	4.80	11.45	1.45	176	12.6	3197
1988	5.18	13.48	1.58	190	14.9	3483
1989	7.00	15.60	1.98	257	17.2	4365
1990	6.14	15.01	1.90	226	16.5	4183
1991	6.41	15.73	1.99	235	17.3	4386
1992	6.67	16.45	2.08	245	18.1	4589
1993	6.94	17.16	2.17	255	18.9	4792
1994	7.20	17.88	2.27	265	19.7	4994
1995	7.46	18.60	2.36	274	20.5	5197
1996	7.73	19.32	2.45	284	21.3	5400
1997	7.99	20.04	2.54	294	22.1	5603
1998	8.26	20.75	2.63	303	22.9	5806
1999	8.52	21.47	2.73	313	23.7	6009
2000	8.78	22.19	2.82	323	24.5	6211

U.S. TRENDS 1990-2000 (BASED ON 1979-89 DATA)

	EXPORTS (MMT)			EXPORTS		
	SOYBN	SB MEAL	SBOIL	SOYBN MM BU	SB MEAL MMTON	SBOIL MM LB
1979	23.82	7.2	1.22	875	7.9	2690
1980	19.71	6.15	0.74	724	6.8	1631
1981	25.29	6.23	0.94	929	6.9	2072
1982	24.63	6.45	0.92	905	7.1	2028
1983	20.21	4.84	0.83	743	5.3	1830
1984	16.28	4.46	0.75	598	4.9	1653
1985	20.14	5.48	0.57	740	6.0	1257
1986	20.60	6.66	0.54	757	7.3	1190
1987	21.83	6.23	0.85	802	6.9	1874
1988	14.42	4.63	0.73	530	5.1	1609
1989	15.65	4.63	0.66	575	5.1	1455
1990	15.84	4.75	0.57	582	5.2	1257
1991	15.11	4.59	0.53	555	5.1	1174
1992	14.38	4.42	0.50	528	4.9	1091
1993	13.65	4.26	0.46	501	4.7	1009
1994	12.91	4.10	0.42	474	4.5	926
1995	12.18	3.94	0.38	448	4.3	843
1996	11.45	3.77	0.34	421	4.2	760
1997	10.72	3.61	0.31	394	4.0	678
1998	9.99	3.45	0.27	367	3.8	595
1999	9.25	3.29	0.23	340	3.6	512
2000	8.52	3.12	0.19	313	3.4	429

BRAZIL AND ARGENTINA TRENDS 1990-2000 (BASED ON 1979-89 DATA)

	ACREAGE 000 HA	PROD 000 MT	ACREAGE MM AC	PROD MM BU
1979	9856	13940	24.4	512
1980	10804	18756	26.7	689
1981	10241	18700	25.3	687
1982	10188	16985	25.2	624
1983	10417	18950	25.7	696
1984	12331	22541	30.5	828
1985	13423	25028	33.2	920
1986	12766	21400	31.5	786
1987	12780	24300	31.6	893
1988	14784	27721	36.5	1018
1989	16200	29600	40.0	1088
1990	15622	29586	38.6	1087
1991	16198	30912	40.0	1136
1992	16775	32238	41.5	1184
1993	17352	33564	42.9	1233
1994	17928	34890	44.3	1282
1995	18505	36216	45.7	1331
1996	19081	37542	47.1	1379
1997	19658	38868	48.6	1428
1998	20234	40194	50.0	1477
1999	20811	41520	51.4	1525
2000	21387	42846	52.8	1574

U.S. TRENDS 1990-2000 (BASED ON 1979-89 DATA)

	HARV AC MM AC	PROD MM BU
1979	70.3	2260
1980	67.8	1796
1981	66.1	1988
1982	69.4	2190
1983	62.5	1636
1984	66.1	1861
1985	61.6	2099
1986	58.3	1940
1987	57.0	1923
1988	57.5	1548
1989	59.1	1937
1990	55.2	1770
1991	53.8	1744
1992	52.5	1718
1993	51.1	1692
1994	49.8	1666
1995	48.4	1641
1996	47.1	1615
1997	45.8	1589
1998	44.4	1563
1999	43.1	1537
2000	41.7	1511

American Soybean Association
Attachment #4

AVERAGE MARKET PRICE RATIOS

SOYBEANS - CORN

The traditional "netural" soybean/corn price ratio is 2.5:1.

	Soybean Price	Corn Price	Bean/Corn Ratio
1986	$4.78	$1.50	3.18:1
1987	$5.88	$1.94	3.03:1
1988	$7.35	$2.54	2.89:1
1989*	$5.50	$2.25	2.44:1

SOYBEAN - COTTON

The traditional "neutral" soybean/cotton price ratio is 10:1.

	Soybean Price	Cotton Price	Bean/Cotton Ratio
1986	$4.78	51.5 cents	9.28:1
1987	$5.88	64.3 cents	9.14:1
1988	$7.35	55.5 cents	13.24:1
1989*	$5.50	N/A**	N/A

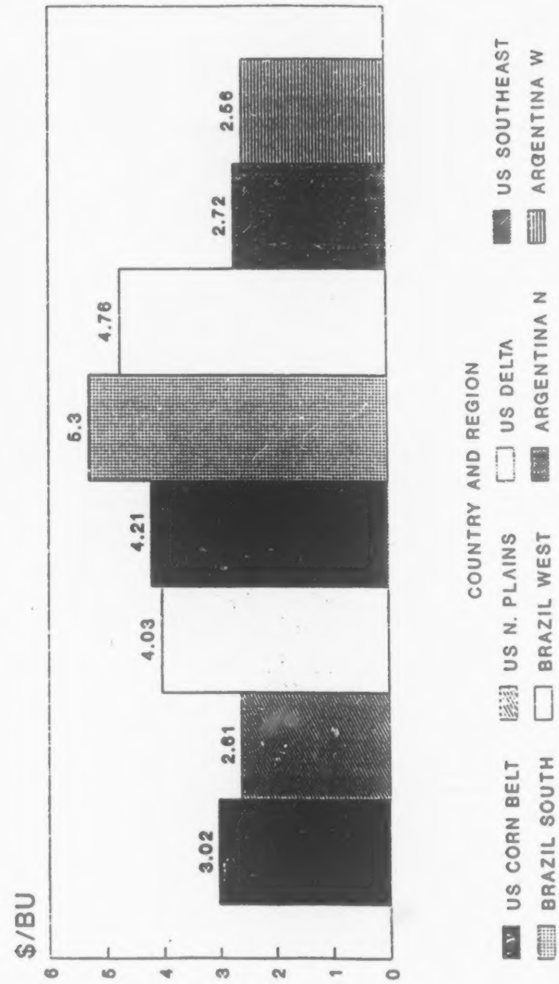
* USDA estimate

** USDA is prohibited from publishing cotton price projections.

American Soybean Association
Attachment #5

SOYBEANS

COST OF PRODUCTION
US, BRAZIL, AND ARGENTINA



SOURCE: ERS/USDA, 1989

Table 15--Farm budget for soybeans, United States, Brazil, and Argentina 1/

Item	United States								Brazil				Argentina			
													Buenos Aires			
	Corn Belt/ Lake States		Southeast		Northern Plains		Delta		Southern		Center-West		Northern		Western	
	$/ha															
Cash Expenses:																
Seed	22	(18)	20	(12)	16	(15)	21	(16)	40	(21)	36	(14)	18	(11)	19	(20)
Fertilizer	14	(11)	36	(21)	8	(7)	11	(8)	39	(20(	80	(30)	0	(0)	0	(0)
Lime and Gypsum	2	(1)	10	(6)	0	(0)	1	(1)	13	(7)	27	(10)	0	(0)	0	(0)
Chemicals	46	(37)	55	(33)	34.	(34)	51	(38)	46	(24)	57	(22)	57	(35)	31	(33)
Custom Operations	8	(6)	14	(8)	9	(9)	13	(10)	50	(26)	56	(21)	50	(31)	28	(29)
Fuel, Lube and Electricity	12	(10)	11	(7)	14	(14)	11	(9)	2/	(0)	2/	(0)	2/	(0)	2/	(0)
Repairs	15	(12)	17	(10)	18	(18)	17	(13)	2	(1)	3	(1)	2/	(0)	2/	(0)
Hired Labor	4	(3)	4	(2)	4	(4)	4	(2)	2/	(0)	2/	(0)	2/	(0)	2/	(0)
Miscellaneous	1	(1)	0	(0)	0	(0)	2	(2)	2/	(0)	2/	(0)	36	(22)	17	(18)
Technical Services	0	(0)	0	(0)	0	(0)	1	(1)	3	(2)	4	(2)	3/	(0)	3/	(0)
Variable Cash Expenses 4/	123	(100)	168	(100)	103	(100)	132	(100)	194	(100)	264	(100)	160	(100)	95	(100)
General Farm Overhead	30	(19)	15	(26)	27	(22)	17	(29)	53	(43)	53	(46)	61	(89)	61	(93)
Taxes and Insurance	39	(25)	15	(26)	31	(25)	14	(24)	3	(2)	2	(2)	3/	(0)	3/	(0)
Interest	90	(56)	27	(48)	64	(52)	27	(47)	67	(54)	59	(52)	7	(11)	5	(7)
Fixed Cash Expenses 4/	159	(100)	57	(100)	121	(100)	58	(100)	123	(100)	114	(100)	68	(100)	65	(100)
Total Cash Expenses	282	(100)	225	(100)	224	(100)	190	(100)	317	(100)	378	(100)	228	(100)	160	(100)
Percent variable		(44)		(75)		(46)		(70)		(61)		(70)		(70)		(59)
Percent fixed		(56)		(25)		(54)		(30)		(39)		(30)		(30)		(41)
Harvest Period Price ($/tn)		166		178		162		179		224		214		143		166
Yield (Tn/Ha)		2.56		1.45		2.32		1.28		1.62		2.16		2.50		1.70
Average Total Cost (Ds/tn)		111		155		96		148		195		175		100		94

Note: Cost data are for 1986/87 and 1987/88 crop years. All cost data converted at official exchange rates.

1/ Numbers in parentheses are percentages. 2/ These items are included in "Customs operations."

3/ These items are included in "General farm overhead." 4/ May not add to 100 because of rounding.

American Soybean Association
Attachment #5

Soybean Costs of Production: The Cases of Argentina, Brazil, and the United States

In 1988, for the first time, soybean output in the southern half of the Western Hemisphere surpassed that of the United States. As a result, there is great interest in examining cost of production data in the United States, Brazil, and Argentina to determine the basis of soybean competitiveness in these countries. This paper describes the distribution of costs by region. This approach contrasts with previous cost of production studies (Ohio State, 1986; Flichman, 1987; Regunaga, 1988), which are based on a single-point estimate—usually the region having the lowest costs in each country. Using regional average variable cost data, a composite three-country cost curve may be constructed. The resulting analysis clearly shows which regions are the lower and higher cost regions.

An important factor in determining soybean costs of production has been the diffusion of soybeans from traditional to expansion regions of production. This diffusion has resulted in a significant portion of soybean area planted now being located in these expansion areas. Such areas typically have lower yields and require greater input use.

In the United States, there are four principal production regions: the Corn Belt-Lake States (CBLS), Southeast, Delta, and Northern Plains. However, the growth in soybean area planted since the 1950's has not been equal among these regions. The percentage of U.S. production that occurs in the traditional CBLS area has been declining steadily since that time. By 1980-85, the CBLS region composed only 54.4 percent of U.S. production compared with 74.5 per cent in 1950-54.

In Brazil, the traditional region in southern Brazil includes the states of Rio Grande do Sul, Santa Catarina, Parana, and Sao Paulo. These states accounted for almost 85 percent of area harvested in 1977, but less than 67 percent in 1986. In Argentina, the traditional soybean area is comprised of the north of Buenos Aires Province and the south of Santa Fe Province. These regions accounted for nearly 100 percent of area planted in the 1970/71 crop year, but they now have only 70 percent.

There are significant differences in yields between the traditional and expansion regions. The expansion regions are often marginal lands, where yields are typically low and cultivation costs high. Consequently, the cost of production per unit of output is greater than in traditional regions.

For example, during 1980-1985, yields in the United States ranged from a low of 1.38 tons per hectare in the Southeast to 2.31 tons per hectare in the CBLS—a 67-percent difference.

Cost of production data for 1986 and yield data from 1983-1985 (to maintain consistency with data for Brazil and Argentina) were used to calculate the average variable cost of producing a ton of soybeans in each region (table 14). These data show that in the United States the cost of soybean production varies from a low of $57 per ton in the CBLS to a high of $113 per ton in the Southeast.

In Brazil, yields ranged from 1.3 tons per hectare in Bahia and Santa Catarina to over 2.0 tons per hectare in Matto Grosso. Combining regional yield and cost per hectare data indicates that the average variable cost of production of soybeans varies from $102 per ton in Sao Paulo to $203 per ton in Bahia.

Argentina shows the least variation of yield by region of the three countries. Yields in the traditional Santa Fe-Buenos Aires region are well above 2 tons per hectare. Even where Argentine yields are low (1.6-1.8 tons per hectare, as in the Center and West of Buenos Aires), they still exceed the low-yield regions of the United States (1.5 tons per hectare) and Brazil (1.2-1.3 tons per hectare).

The contribution of different components to the variable and fixed costs of production are illustrated in table 15. The outstanding feature of these data is that they demonstrate the importance of fertilizer, lime, and gypsum as inputs which raise costs of production in the expansion areas of Brazil (Center-West) and the United States (Southeast). By comparison, in Argentina, such soil-correcting inputs are not generally used, and the average cost of production is low relative to the United States and Brazil.

The average variable cost data for 21 regions in the three countries show that the six Argentine regions have the lowest costs. However, the CBLS region compares favorably with the best of Argentina's production areas. Given the wide advantage in U.S. internal shipping costs (Miro, 1986), even the best soybean region of Argentina appears to be at a competitive disadvantage against the CBLS.

At the other extreme, the last 25 percent of output in these countries is produced at a variable cost of over $110 per ton. The regions having these high production costs are the Center-West in Brazil and the southeastern United States. Significant world price movements would most likely affect *these* regions, rather than the U.S. Corn Belt, the traditional areas of southern Brazil, or Argentina.

Further issues to be studied include: the impact of exchange rate variability on cost of production; land rental rates and the opportunity cost of soybean production; and greater consideration of long- vs. short-run supply implications of the cost data examined here. (Trapido, Paul J. and R. Krajewski. *Soybean Costs of Production: The Cases of Argentina, Brazil, and the United States.* ERS, Staff Report No. AGES-89, forthcoming. Reca, Alejandro, and Paul J. Trapido. *The Argentine Soybean Crushing Industry.* ERS, Staff Paper No. AGES-89, forthcoming.)

Table 14--Soybean producing regions of the United States, Brazil, and Argentina, [illegible], ranked by average variable cost of production 1/

Country and region	Total variable cost	Yield	Average variable cost	Area planted	Percent of area planted	
					By region	Cummulative
	$/ha	Tons/ha	$/ton	1,000 ha	Percent of country	
United States:						
Corn Belt-Lake States	123.33	2.168	57	15,078	60	60
Northern Plains	101.59	1.721	59	2,103	8	68
Delta	132.06	1.564	84	3,822	15	83
Southeast	167.69	1.484	113	4,250	17	100
Brazil:						
Sao Paulo	193.74	1.895	102	484	5	5
Parana	193.74	1.810	107	2,025	21	26
Matto Grosso do Sul	193.74	1.753	111	1,229	13	39
Matto Grosso	264.11	2.051	129	747	8	47
Rio Grande do Sul	193.74	1.359	143	3,496	37	84
Minas Gerais	264.11	1.831	144	400	4	88
Brasilia	264.11	1.831	144	41	0	88
Santa Caterina	193.74	1.322	147	413	4	92
Goias	264.11	1.702	155	647	7	99
Maranhao	264.11	1.560	169	7	0	99
Bahia	264.11	1.302	203	63	1	100
Argentina:						
Santa Fe, Northwest	95.04	2.162	44	273	10	10
Cordoba	95.04	1.952	49	427	16	26
Buenos Aires, West	95.04	1.619	59	101	4	30
Buenos Aires, North	160.08	2.334	69	1,241	46	76
Santa Fe, South	160.08	2.244	71	612	23	99
Buenos Aires, Center	160.08	1.831	87	51	2	2/ 101
Combined;					Percent of combined area	
Santa Fe, Northwest	95.04	2.162	44	273	1	1
Cordoba	95.04	1.952	49	427	1	2
Corn Belt-Lake States	123.33	2.168	57	15,078	40	42
Buenos Aires, West	95.04	1.619	59	101	0	48
Northern Plains	101.59	1.721	59	2,103	6	48
Buenos Aires, North	160.08	2.334	69	1,241	3	51
Santa Fe, South	160.08	2.244	71	612	2	53
Delta	132.06	1.564	84	3,822	10	63
Buenos Aires, Center	160.08	1.831	87	51	0	63
Sao Paulo	193.74	1.895	102	484	1	64
Parana	193.74	1.810	107	2,025	5	70
Matto Grosso do Sul	193.74	1.753	111	1,229	3	73
Southeast	167.69	1.484	113	4,250	11	84
Matto Grosso	264.11	2.051	129	747	2	86
Rio Grande do Sul	193.74	1.359	143	3,496	9	95
Minas Gerais	264.11	1.831	144	400	1	96
Brasilia	264.11	1.831	144	41	0	96
Santa Caterina	193.74	1.322	147	413	1	97
Goias	264.11	1.702	155	647	2	98
Maranhao	264.11	1.560	169	7	0	98
Bahia	264.11	1.302	203	63	0	2/ 98

1/ Crop year. 2/ Rounding error

American Soybean Association
Attachment #6

Table 32--U.S. soybean production costs and returns per planted acre, 1986-88 1/

Item	1986	1987	1988
		Dollars	
Gross value of production:			
Primary crop	150.64	171.66	200.25
Total	150.64	171.66	200.25
Cash expenses:			
Seed	10.82	11.16	11.91
Fertilizer	5.01	5.00	6.32
Lime and gypsum	.34	.29	.30
Chemicals	12.37	12.34	12.34
Custom operations	4.01	3.98	4.04
Fuel, lubrication, and electricity	7.39	8.97	9.12
Repairs	6.56	6.63	7.29
Hired labor	2.53	2.62	2.80
Technical services	.05	.05	.05
Total, variable cash expenses	49.08	51.04	54.17
General farm overhead	7.87	10.81	12.37
Taxes and insurance	13.46	13.94	14.35
Interest on operating loans	6.79	6.48	5.90
Interest on real estate	11.37	12.54	13.22
Total, fixed cash expenses	35.49	43.77	45.84
Total, cash expenses	86.57	94.81	100.01
Net cash returns 2/	62.07	76.85	100.24
Capital replacement	31.48	31.84	34.01
Net cash returns less capital replacement	30.59	45.01	66.23
Economic (full ownership) costs:			
Variable cash expenses	49.08	51.04	54.17
General farm overhead	7.87	10.81	12.37
Taxes and insurance	13.46	13.94	14.35
Capital replacement	31.48	31.84	34.01
Allocated returns to owned inputs:			
Return to operating capital 3/	1.09	1.24	1.51
Return to other nonland capital 4/	5.07	5.72	7.01
Net land return 5/	43.63	45.56	51.89
Unpaid labor	9.53	9.86	10.55
Total, economic costs	161.21	170.01	185.86
Residual returns to management and risk 6/	10.57	1.65	14.39
Harvest-month price (dollars per bushel)	4.57	5.07	7.53
Yield (bushels per planted acre)	32.94	33.63	26.60

1/ Sum of operators' and landlords' costs and returns. 2/ Gross value of production less total cash expenses. 3/ Variable expenses multiplied by time between use and harvest and by 6-month U.S. Treasury bill rate (see page xx). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in the farm sector (see page yy). 5/ Rental value of land based on composite of share and cash rent (see page zz). 6/ Gross value of production less total economic (full ownership) costs.

Table 33--Soybean production costs and returns per planted acre, Delta, 1986-88 1/

Item	1986	1987	1988
		Dollars	
Gross value of production:			
Primary crop	88.26	115.91	178.48
Total	88.26	115.91	178.48
Cash expenses:			
Seed	9.31	10.10	10.75
Fertilizer	6.06	6.04	7.88
Chemicals	8.53	8.51	8.54
Custom operations	2.30	2.35	2.36
Fuel, lubrication, and electricity	7.40	9.53	9.76
Repairs	6.72	7.00	7.48
Hired labor	2.49	2.53	2.54
Technical services	.05	.05	.05
Total, variable cash expenses	42.86	45.94	49.36
General farm overhead	6.94	6.93	9.75
Taxes and insurance	7.94	8.30	8.52
Interest on operating loans	5.08	6.09	4.84
Interest on real estate	5.06	5.07	4.78
Total, fixed cash expenses	25.02	26.39	27.89
Total, cash expenses	67.88	72.33	77.25
Net cash returns 2/	20.38	43.58	101.33
Capital replacement	27.94	28.66	30.48
Net cash returns less capital replacement	-7.56	14.92	70.75
Economic (full ownership) costs:			
Variable cash expenses	42.86	45.94	49.36
General farm overhead	6.94	6.93	9.75
Taxes and insurance	7.94	8.30	8.52
Capital replacement	27.94	28.66	30.48
Allocated returns to owned inputs:			
Return to operating capital 3/	1.08	1.28	1.54
Return to other nonland capital 4/	4.73	5.45	6.62
Net land return 5/	20.06	23.59	34.99
Unpaid labor	9.38	9.52	9.55
Total, economic costs	120.93	129.67	150.81
Residual returns to management and risk 6/	-32.67	-13.76	27.67
Harvest-month price (dollars per bushel)	4.88	5.54	7.47
Yield (bushels per planted acre)	18.10	20.93	23.90

1/ Sum of operators' and landlords' costs and returns. 2/ Gross value of production less total cash expenses. 3/ Variable expenses multiplied by time between use and harvest and by 6-month U.S. Treasury bill rate (see page xx). 4/ Value of machinery and equipment multiplied by longrun real rate of return to production assets in the farm sector (see page yy). 5/ Rental value of land based on composite of share and cash rent (see page zz). 6/ Gross value of production less total economic (full ownership) costs.

American Soybean Association
Attachment #7

SOYBEAN GRADUATED EQUITY LOAN

Formula Loan Rate

Soybean loan rate = Weighted average of: corn and cotton target prices X permitted acreage (1.0 minus ARP%) X "neutral" price ratio (2.5 for corn, 10 for cotton)

Formula calculation (if in place for 1990 crop):

corn - $2.75 X 90% X 2.5 = $6.19/bu

cotton - $.729 X 87.5% X 10 = $6.38/bu

weighted average (relative 1989 acreage) = $6.22/bu

Soybean Loan Rate = $6.22/BU

SOYBEAN GRADUATED EQUITY LOAN

Stocks Trigger

Stocks *(mil bu)*	Formula Loan *($/bu)*	Percent of Production Eligible for Loan
< 150	$6.22	45%
150-250	$6.22	55%
250-350	$6.22	65%
> 350	$6.22	75%

Soybeans
American Soybean Association

March 1, 1990

Ms. Mary Byrne
Room SR-328A
Committee on Agriculture, Nutrition
 and Forestry
United States Senate
Washington, D.C. 20510-6000

Dear Ms. Byrne:

This is in response to Chairman Leahy's February 13 letter requesting answers to several questions from Senator Kerrey following my testimony before the Committee on February 1. A copy of the questions is attached.

Regarding question 1, as a point of clarification, the $6.22 rate referred to by Senator Kerrey is the rate that has been used for illustration purposes and is the rate that would result if the 1990 corn and cotton target prices and ARPs are assumed. Since the GE Loan rate is tied to target prices and ARPs for corn and cotton, the actual GE Loan rate in 1991-95 may be lower (most likely) or higher than the $6.22 example depending on actual target prices and ARPs for those future years.

QUESTION:
Why should the farmer hold beans under loan at $5 when any improvement in prices will only result in amount of GE Loan that is forgiven?

ANSWER:
Because the maximum loan coverage is 75% of the crop, the farmer is always better-off to hold for higher market prices when prices are low because the increase in market price applies to 100% of production while the decrease in GE Loan forgiveness applies to only 75% of production (see Scenario A and B example).

QUESTION:
Won't a producer gain by holding beans under loan only if prices exceed $6.22?

ANSWER:
No. The farmer almost always benefits by holding for higher prices when prices are under the loan rate (see Scenario A and B example). Storage costs accrue to the farmer whether prices are above or below the loan rate. If interest is forgiven on the GE

Loan when paid-off at less than the original rate, then the farmer would have to consider interest charges if he anticipated selling above the loan rate. He must compare his weighted average price for his entire crop by paying the loan off at below the loan rate with interest forgiven versus the expected market price if he holds and sells at a price above the loan rate thereby incurring interest costs.

For example:

- Assume $.05 per bushel month interest cost (just over 9 1/2% per annum)
- Assume $6.00 market price
- Assume 55% of crop eligible for loan (@$6.00 market price stocks would be relatively low so loan coverage would be less than maximum).

- If market prices are $6.00 when crop is put under loan, then farmer would be better-off to hold until prices reached $6.22 (the loan rate) before selling and paying off the loan.

- But once prices rise above the $6.22 level, then the farmer would be "in-the-hole" until prices rose enough above $6.22 to pay the accrued interest.

- Assume 6 months interest had accrued (30 cents/bu); then the price would have to rise above $6.52 ($6.22 + $.30) before the farmer would be better-off by holding past the $6.22 mark. Every month that passes by adds $.05 per bushel to the "break-even" price.

SCENARIO A & B EXAMPLE

Assumptions

GE Loan = $6.22
% Coverage = 75%

Then at $5 selling price, net minimum price on 100% of production is

$6.22 x .75 = $4.67
$5.00 x .25 = 1.25
weighted price = $5.92
on 100%

Scenario A, falling market prices:

If farmer holds and prices fall to $4.50, then weighted average price on 100% of production is $5.80 bushel (note: a $.50 market price decline results in only a $.12 loss in actual income per bushel.)

Scenario B, rising market prices:

But, if farmer holds and market price rises from $5.00 to $6.00 then weighted average price on 100% of production is $6.17, so Farmer B, by holding at $5.00 risked $.12 loss (if prices fell to $4.50) for gain of $.25 a better than 2:1 reward/risk ratio.

This example illustrates why farmers might hold beans under loan when prices are low. Whether a farmer would pay-off the loan and sell at $5 or wait to see if prices rebound depends on each farmers risk-taking preference and at what weighted average price he is willing to supply his beans to the market. The Law of Supply states more will be supplied at a higher price than a lower price. Therefore under GEL, farmers as a group would probably behave similarly to the way they do now. They would be reluctant to sell at very low prices, but more willing to sell as prices increased.

QUESTION:
Did ASA consider a target price rather than a higher loan rate to protect producer income? If so why was a target price rejected?

ANSWER:
A precedent has been set by the cotton and rice marketing loans whereby "loan forgiveness" is exempt from the $50,000 payment limitation while deficiency payments through the target price mechanism are subject to the $50,000 limit. That is one reason why the soybean support was proposed as a "loan".

The more important reason though was the need to change the existing loan program so that the soybean loan would not support world market prices and thereby support U.S. farmers competitors. The current loan allows U.S. farmers to forfeit their soybeans under CCC loan to the government rather than repay the loan when market prices are too low to pay-off the loan plus interest. In 1985 and 1986 this resulted in massive amounts (one-fifth the annual crop) falling into U.S. government ownership. This propped-up the price for our competitors and allowed them to sell to our customers while Uncle Sam stored the surplus. ASA's voting delegates were adamant about a need to change the soybean loan program to avoid supporting prices for our competitors through government stockpiling. This was accomplished by proposing the GE Loan be a non-forfeiture loan (it must be repaid within a 9 month period). In return for giving up the right to forfeit, U.S. farmers income was supported (but not their competitors) by allowing the loan to be repaid at the lesser of the loan rate or the local market price. In short, partial loan forgiveness was exchanged for the right to forfeit in lieu of repayment. Additionally, our farmers are adamantly against set-asides as a policy of supply management. A target price mechanism would invite the subsequent use of set-asides. The non-forfeiture provision of the GE Loan proposal would result in more efficient resource allocation.

QUESTION:
Has ASA considered whether the GE Loan proposal if enacted would undermine ASA's (the U.S. Government's) ability to successfully challenge foreign oilseed subsidies in the future?

ANSWER:
First of all, the European Community has not yet changed their oilseed subsidy schemes. While they have accepted the GATT Panel decisions, it appears they once more plan to stall on corrective remedies until after the Uruguay Round is completed. They (EC) have repeatedly said in recent weeks they wish to "rebalance" oilseed subsidies with their cereal regime. This would be wholly unacceptable to us. We've asked for some kind of change or "signal" in their oilseed subsidy policy by next summer (1990) before their winter rapeseed is planted. They have refused. So, it is not yet a foregone conclusion what kind of settlement, if any, the EC will tender as a result of their losing the GATT Oilseed Panel case.

Obviously, our farmers' enthusiasm for the GATT and Uruguay Round is contingent upon the satisfactory settlement of the oilseed subsidy case. We'd hoped your enthusiasm would also be shaped by our administrations' forcefulness on this issue.

Our proposed GE Loan Program, since it covers only part of the soybean production, may have less problem within GATT rules than would otherwise be the case. While some may make a case that the GE Loan proposal would invite retaliation under our GATT obligations, we are inclined to think this would not occur.

Our farmers are perfectly willing, should the GE Loan be implemented, to forego the program if other countries such as the EC eliminate their current predatory subsidy and trade distorting practices regimes. We have for some time been practicing unilateral disarmament whereby U.S. soybean farmers have had to compete unfairly with the EC, Argentine and Brazilian governments. It is time to decide what is in the best interest of the United States. We believe the GE Loan Program for soybeans will enable U.S. farmers to compete fairly and equitably in the world market place.

QUESTION:
Has ASA considered or discussed with USDA officials whether income tax liability for interest forgiveness is a concern with respect to the GE Loan?

ANSWER:
Interest on the GE Loan as currently proposed would be forgiven only if the loan was repaid at less than the original amount. This provision has not been explicitly discussed with USDA. However, the proposal has been thoroughly discussed with USDA/ASCS personnel and the issue of tax liability has never been raised by them.

I hope the above sufficiently answers Senator Kerrey's questions. If any additional information is required, please contact me through our St. Louis office.

Sincerely,

Marlyn Jorgensen

Marlyn Jorgensen
President

Attachment

ADDITIONAL QUESTIONS OF SENATOR BOB KERREY SUBMITTED TO THE AMERICAN SOYBEAN ASSOCIATION
(February 1, 1990 Soybean Hearing)

1) ASA's Graduated Equity Loan (GEL) program would result in a loan rate of approximately $6.22 per bushel. Under the GEL proposal a producer could, apparently, take a loan and repay it the same day.

Assume, for example, that cash soybean prices were $5.00 at harvest time. In such a situation, why wouldn't there be a strong incentive for farmers simply to take out a loan and redeem the loan the same day, and thereby collect the difference between the loan rate and cash price (or PCP, which is supposed to reflect the cash price) -- a difference of $1.22 per bushel?

Why should the producer in such a situation continue to hold the beans under loan, since any improvement in market price will only result in a corresponding reduction in the amount of the GEL that is forgiven?

Won't a producer gain by holding beans under loan only if prices exceed the $6.22 GEL by an amount equal to the storage and interest costs associated with holding the beans?

2) Did the ASA, in reviewing its options for offering improved income protection to soybean producers, consider a program that would rely on a target price, rather than a higher loan rate, to protect producer income? If it was considered, why was a target price alternative rejected?

3) Recently the United States (and ASA) won its Gatt complaint against the EC's oilseed subsidy program. Has ASA considered whether its GEL proposal, if enacted, would undermine ASA's (or the United States Government's) ability to successfully challenge foreign oilseed subsidies in the future?

4) As you may know, last year I sponsored a provision enacted into law that would authorize the Secretary of Agriculture to forgive a portion of the principal due on expiring commodity loans in order to enhance the marketing of commodities and to save the government the additional costs of acquiring, holding, and disposing of forfeited commodities.

In contemplating whether to use this new authority, USDA officials raised questions about whether farmers may incur additional tax liability as a result of the interest forgiveness that is inherent in such a proposal (similar questions about the current operation of marketing loans for cotton and rice notwithstanding).

Has ASA considered or discussed with USDA officials whether similar concerns could be raised with regard to the GEL proposal?

Senator **Pryor**. Next we have chosen a farmer, a soybean farmer from Tillar, Arkansas to come before us today and that is Thad Freeland.

Thad, we appreciate you being here before the committee, and we look forward to your statement.

STATEMENT OF THAD FREELAND, ARKANSAS SOYBEAN FARMER, TILLAR, AR

Mr. **Freeland**. Thank you.

Senator Pryor, distinguished members of the committee, I——

Senator **Pryor**. By the way, ladies and gentlemen, Tillar, Arkansas, is about the size of this committee room, but the word is that there is probably more brain power per square foot in Tillar, Arkansas, than almost anywhere else in the United States, and we appreciate your being here, Thad.

Senator **Cochran**. Including this room?

Senator **Pryor**. Including this room, right.

Mr. **Freeland**. Thank you.

INTRODUCTION

My farm, as Senator Pryor alluded to is in Tillar, Arkansas. We grow soybeans, cotton and rice. It is an honor and a privilege to be invited here to speak before you all today. Soybeans are Arkansas' leading acreage cash row crop this year. We fell from No. 1 cash to No. 1 acreage crop this year. However, on our farm, it is our least profitable crop.

CONCERNS

Arkansas farmers have some concerns that I would like to share with you. We see the loss of soybean acres, production and profits as a dangerous sign that the United States could lose a valuable crop option. I am obviously in the business for the profit. However, in the last 4 out of 5 years we have farmed beans for a loss. Additionally, I am concerned that continued foreign expansion will drive prices lower and take more money out of my pocket. Recent developments in Eastern Europe and the Soviet Union are obvious signals that opportunities for soybeans exist. We just need the policies that will allow us to seize those opportunities.

Since 1981, farmers in the Delta have done their part to reduce costs. We have worked to bring the cost of production as low as possible. We have cut our chemical costs by one-half and fuel costs by one-third. Yet, our low yield keeps the profit on soybeans so low that the risk factor in soybean farming discourages expansion.

In Arkansas, and in the Midsouth, low yield is really the limiting factor to profitability. While the national average yield for soybeans is 34 bushels per acre, the average yield in Arkansas is only 24 bushels per acre. In fact, over the past 20 years, the average yield has actually gone down 1 bushel per acre.

PRESENTLY OUR CURRENT NATIONAL SOYBEAN PROGRAM POLICY HAS SOME ASPECTS THAT ARE BOTH GOOD AND BAD

Presently our current national soybean program policy has some aspects that are both good and bad. Basically, it offers good flexibility because no restrictions are placed on plantings or loan eligibility. However, the loan rate itself acts as a price floor to the world and makes the U.S. Government the buyer of last resort at a guaranteed price in the event of a surplus.

Additionally, flexibility is encouraged through the 0/25 program. The Secretary should be advised to allow this program at the maximum 25 percent. This would give a farmer the option to respond to the market, or for agronomic reasons allow him the option to plant soybeans while protecting his program bases. Mr. Chairman, your proposed $6.25 marketing loan for soybeans would without question be of great benefit to the Delta soybean growers.

Had this policy been in effect this past season, Arkansas soybean growers would have received an additional $50 million for their products. I can assure you that you will find strong support for this program.

However, should any restrictions be tied to this program, such as limited plantings, set-aside, or any of the other freedoms not found in the present program, the additional guaranteed price support would not be worth the loss of flexibility. It is a valuable privilege to plant one crop on my farm free from Government restrictions.

SUMMARY

In summarizing, I would like to emphasize my belief that the U.S. Government has an obligation to maintain competitive prices for U.S. farm products. The marketing loan is the most efficient way to achieve such competitiveness.

Flexibility means many things to many people. To me, it means that farmers must have the freedom to manage their businesses for a profit. We applaud the 0/25 option for soybeans and the 1990 wheat modified contract option as good mechanisms for achieving flexibility.

As farmers, our hopes for greater soybean profits hinge on increased yield and higher prices. Arkansas soybean growers are investing over $700,000 per year on research to increase yield and to improve the qualities on soybeans. Federal funds for our land-grant institutions desperately need to be increased. And the $6.25 per bushel marketing loan would go a long way toward guaranteeing a price that would help make soybeans profitable.

Thank you for hearing my views.

Senator **Pryor**. Thank you, Thad, very much for your contribution to our hearing this morning.

[The prepared statement of Mr. Freeland follows:]

STATEMENT OF THAD FREELAND, ARKANSAS SOYBEAN FARMER, BEFORE THE SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

FEBRUARY 1, 1990

Good morning, I'm Thad Freeland. I manage a farming operation in Tillar, Arkansas, where we grow soybeans, cotton and rice. It's a real honor and privilege to be invited here today. Soybeans are Arkansas's leading cash row crop. It is, however, our least profitable crop.

This year, Arkansas farmers will harvest more than 75 million bushels of soybeans on 3.2 million acres according to USDA. Our crop has a cash value of $422 million and accounts for approximately 1/3 of the total crop value in Arkansas. As you can see, soybeans are important source of income in my home state.

Arkansas farmers have concerns that I'd like to share with you today. We see the loss of soybean acres, production and profits as a dangerous sign that the U.S. could lose a valuable crop option. I'm obviously in business for the profit. However, in the last 4 out of 5 years we have farmed beans for a loss. Additionally, I'm concerned that continued foreign expansion will drive prices lower and take more money out of my pocket. Recent developments in Eastern Europe and the Soviet Union are obvious signals that opportunities for soybeans exist. We just need the policies that allow us to seize those opportunities.

Since 1981, farmers in the Delta have done their part to reduce costs. We've worked to bring the cost of production as low as possible. We've cut our chemical costs by one-half and fuel costs by one-third. Yet, our low yield keeps the profit on producing at such a low level that the risk factor in soybean farming discourages expansion.

In Arkansas and the Mid-South, low yield is really the limiting factor. While the national average yield for soybeans is 34 bushels/acre, the average yield in Arkansas is only 24 bushels/acre. In fact, over the past 20 years, the average yield has actually gone down one bushel per acre. We've concentrated a lot of our resources in the state toward research, yet, so far, we haven't found any solutions without a significant increase in cost of production.

Presently our current soybean program has some aspects that are both good and bad. Basically, it offers good flexibility because no restrictions are placed on plantings or loan eligibility. However, the loan rate itself acts as a price floor to the world and makes the U.S. Government the buyer of last resort at a guaranteed price in the event of a surplus.

Additionally, flexibility is encouraged through the 0-25 program. The Secretary should be advised to allow this at the maximum 25%. This would give a farmer the option to respond to the market or for agronomic reasons allow him the option to plant soybeans while protecting his program bases. Mr. Chairman, your proposed $6.25 marketing loan for soybeans would without question be of great benefit to the Delta soybean growers. A Marketing Loan of $6.25/bushel would:

1. Guarantee more money to soybean growers allowing for a better cost of production to loan ratio.
2. Stabilize prices to consumers
3. Allow for both domestic and exported beans to be purchased at the same price (no GATT violations)
4. Set no floor price on which U.S. soybeans would be sold.

Had this policy been in effect this past season, Arkansas soybean growers would have received $50 million additional dollars for their products. I can assure you that you will find strong support for this program.

However, should any restrictions be tied to this program such as limited plantings, setaside, or any of the other freedoms not found in the present program, the additional guaranteed price support would not be worth the loss of flexibility. It is a valuable privilege to plant one crop on my farm free from government restrictions.

In summarizing, I would like to emphasize my belief that the U.S. Government has an obligation to maintain competitive prices for U.S. farm products. The marketing loan is the most efficient way to achieve such competitiveness.

Flexibility means many things to many people. To me, it means that farmers have the freedom to manage their businesses for a profit. We applaud the 0-25 option for soybeans and 1990 wheat modified contract option as good mechanisms for achieving flexibility.

As farmers, our hopes for greater soybean profits hinge on increased yield and higher prices. Arkansas soybean growers are investing over $700,000 per year on research to increase yield and to improve qualities on soybeans. Federal funds for our land grant institutions desperately need to be increased. And the $6.25 per bushel marketing loan would go a long way towards guaranteeing a price that would help make soybeans profitable.

Thank you for hearing my views.

Senator **Pryor**. We will call on our next witness here, and that would be Floyd Anderson, chairman of the National Sunflower Association, Brocket, North Dakota.

STATEMENT OF FLOYD ANDERSON, CHAIRMAN, NATIONAL SUNFLOWER ASSOCIATION, BROCKET, ND

Mr. **Anderson**. Thank you, Mr. Chairman.

Senator **Pryor**. Senator Conrad, did you want to introduce your constituent?

Senator **Conrad**. I would just point out that this is totally misleading. Floyd is from Brocket, not from Bismarck and I will tell you, we are working with a lot of brains per square foot. Perhaps the only place that exceeds, Tillar, Arkansas, is Brocket, North Dakota.

Mr. **Anderson**. Thank you, Senator, I was going to say the same thing.

Senator **Pryor**. Thank you.

We appreciate your being with us this morning.

INTRODUCTION

Mr. **Anderson**. I am Floyd Anderson, a sunflower and wheat farmer from Brocket, North Dakota and chairman of the National Sunflower Association. On behalf of our 12,000 producers, and the sunflower seed and processing industries, we very much appreciate the opportunity to present our views on oilseed provisions in the 1990 farm bill.

LOST OVER 70 PERCENT OF U.S. SUNFLOWER ACREAGE SINCE 1981

Mr. Chairman, I understand my time is limited and we will get into what we should talk about right away. We have lost approximately 70 percent of our sunflower production since 1981.

WE HAVE A PROBLEM WITH WHAT HAPPENED IN EUROPE

It was alluded earlier that the European production had not had any effect on us. That is a misnomer. In 1979, North Dakota had 5.5 million acres; France had 1, when you convert hectares to acres.

Last year, France had 7 million acres and North Dakota had a little over 1.5 million. Now, why did that big switch take place?

It took place because their high subsidy gives them the acres, they turned right around and sold them on the world market for little or nothing. We tried to get into the North African market, and we had our price way down there and we could not sell them. Europe sold them for less than we could sell them for. They sold them so cheap, the farmer could have just about given the seeds to the exporter and he still could not have sold them, because the freight and the insurance would have been too high to compete with Europe.

So we do have a problem with what happened in Europe and don't forget that; that is a big problem.

WE HAVE TRIED UNSUCCESSFULLY TO COEXIST WITH THE FEDERAL FARM PROGRAMS DURING THE 1980'S

Moving on, we have tried unsuccessfully to coexist with the Federal farm programs during the 1980's. We supported efforts to allow oilseed planting on program crop acres. This approach also failed. Less than 5 percent of the sunflower acres were actually planted under the 10/25 program last year. So substitution options alone will not do the trick.

This past fall, we proposed allowing producers to plant sunflower on conserving use acres under the 0/92 program in 1990 and still receive 1990 program payments. This approach would have been similar to the modified NCA concept being advanced by Senators Leahy and Lugar. Unfortunately, the Department turned down our request as far as the money side of that issue is concerned.

After much frustration and painful experience, our conclusion is that simply having the *opportunity* to plant sunflower on program crop acres is not enough, even when the return per acre is better than that for some program crops. Last spring, when we had the 10/25 provision, I could have contracted, and all farmers could have contracted seeds for about $11.40 in April and using the county average yields, that would have related to a higher return than wheat and the Government payment. But the farmers did not do it because they lacked the guarantee part of it, which they would have given up had they used that option. They would have exposed the entire risk to themselves; the Government would not have had any of the risk, which they do when there is a deficiency payment involved.

That is why just flexibility does not work by itself.

We have gone on and tried other things in 1987, we worked with the Soybean Association on a marketing loan, and we felt that at that time a marketing loan was a viable solution to our answer, and I think it still would be.

THERE ARE OTHER OPTIONS THAT WE COULD LIVE WITH

There are other options that we could live with. As farmers in North Dakota, we would even be prepared to go to a full program: having targets, ARP's, set-asides, and the whole works. Realizing that is probably not feasible or possible, we are more concerned at looking at other options that are probably available to us.

THE MARKETING LOAN OR THE GRADUATED EQUITY LOAN ARE PROBABLY TWO OF THE LEADING FORERUNNERS

The marketing loan or the graduated equity loan are probably two of the leading forerunners of what would need to be considered by the sunflower people.

I am going to skip over several individual items that are in the text, because you can read that individually, and I think I can cover probably most of this by just giving you my thoughts.

If we are going to look at the graduated equity loan, we would support that establishment because it does protect levels for oilseed base and there would be provisions in there, that would create, in a sense, target prices, that would compare to other crops. In our case, that factor would have to be compared to wheat. If we use the $4 a bushel target price for wheat, that would convert to about a 10.2 cents per pound for sunflowers. And with the confection sunflower having a higher production cost, they would be somewhat proportionately higher.

PREPARED TO ACCEPT ASA'S PROPOSAL

The sunflower producers would also accept the ASA's proposal to factor any acreage reduction requirement into the income support level, and to restrict income protection to a portion of the production, based on stock levels or some other trigger. Alternatively, we would accept a full farm program, if that was the best choice.

NOT A VIABLE INDUSTRY FOR ANY CRUSHING PLANT

Because of the losses of acreage of sunflowers in North Dakota, we have had two crushing plants close down, and other crushing plants that are in existence are at 50 percent capacity and that is not a viable industry for any crushing plant.

WE BELIEVE THAT THERE ARE OTHER OPTIONS THAT COULD BE SUPPORTED

We believe that there are other options that could be supported. The normal crop acreage concept, if it had income protection, coming through it, at a rate that would attract the acres that we need to get back because we have lost between 3.5 and 4 million acres, we would accept.

I guess you could say that we are pretty open minded in what we could accept at this point, because there is a lot of different things that would work for us. Some of them would probably work better than others, but at this point, we are ready to work with the committee, and help the committee, trying to decide what is best for oilseeds in the United States.

We do realize that oilseeds have to be treated equally. If the concept is used for one of the oilseeds, and it becomes a viable concept for that oilseed, it has to carry through to the other oilseeds, in order that they are not impacted indirectly because of the program that was given to the one oilseed.

CONCLUSION

So remember that in your working of the concepts; we have to be treated equally within the oilseed division, as well as within the farm program, otherwise it will not work for the particular oilseed.

I think with that, I will stop and let the next speaker have a go at it.

Senator PRYOR. Thank you, very much.

[The prepared statement of Mr. Anderson follows:]

Statement by Floyd Anderson
Chairman, National Sunflower Association

Subcommittee on Agricultural Production
and Stabilization of Prices
Committee on Agriculture, Nutrition, and Forestry
United States Senate

February 1, 1990

Good morning, Mr. Chairman and Members of the Subcommittee. I am Floyd Anderson, a sunflower and wheat farmer from Brocket, North Dakota, and Chairman of the National Sunflower Association. On behalf of our 12,000 producers and the sunflower seed and processing industries, we very much appreciate the opportunity to present our views on oilseed provisions in the 1990 farm bill.

Mr. Chairman, I understand that my time is limited, and will try to make my points as briefly as possible. Our small industry is in serious trouble. We have lost over 70 percent of U.S. sunflower acreage since 1981. These acres have not gone into production of other oilseeds, but to wheat, barley, and the Conservation Reserve -- all Federal programs. This acreage decline occurred while world consumption of sunflower and other oils increased by 35 percent. Unless the 1990 farm bill corrects this situation, our three remaining crushing plants will either close or turn to other crops in the next two or three years. Without policy change, we will not have a sunflower industry in this country by 1995.

Mr. Chairman, our industry tried unsuccessfully to coexist with Federal farm programs during the 1980's. When it became clear that we were being driven out of production, we supported efforts to allow oilseed planting on program crop acres. These approaches have failed. Less than 5 percent of the sunflower acres signed up in last year's 10/25 program were planted, despite favorable prices. The 20 percent substitution option available in 1989 and 1990 will do no better.

This past Fall, we proposed allowing producers to plant sunflower on conserving use acres under the 0/92 program in 1990 and still receive program payments. This approach would have been similar to the modified NCA concept being advanced by Senators Leahy and Lugar. Unfortunately, the Department turned down our request on the grounds that the option might disadvantage producers and other crops who could not participate.

After much frustration and painful experience, our conclusion is that simply having the opportunity to plant sunflower on program crop acres is not enough, even when the return per acre is better than that for some program crops. In addition to opportunity, sunflower must have the same amount of incentive, which we define as an equal level of income protection under the farm program.

Mr. Chairman, I would like to be able to tell you that our industry has figured out a way to increase the opportunity and incentive for producers to grow sunflower at no additional cost to government. Unfortunately, that just isn't going to happen. All we can do at this point is to ask the agriculture committees of Congress to appreciate the severity of the crisis facing the domestic oilseed industry, and to make resolving it a top priority in this year's farm bill. In exchange, I offer the commitment of the sunflower industry to be as flexible as possible in considering alternative solutions.

We would, however, offer the following guidelines as we start the legislative process. First, we should acknowledge that we are facing problems that affect all oilseeds, and that any solution must address all oilseeds. Although there are important differences between them, soybean, sunflower, canola and other edible oils compete for similar or related markets. Prices of the smaller oilseeds are determined using formulas based on the soybean oil contract on the Chicago Board of Trade. Any change in the competitive position of one oilseed -- particularly soybeans -- has a direct and immediate impact on the others. Thus, whatever is done with regard to one oilseed in the farm bill must be applied across-the-board to avoid disadvantaging producers of other oilseed crops.

Second, there is no question that soybeans are the benchmark oilseed crop in the United States, and that whatever policies are developed for the smaller crops will be heavily influenced --if not dictated -- by what is done on soybeans. The 60 million acres of beans harvested in 1989 represent over 95 percent of non-program oilseed production. In contrast, sunflower acreage last year was less than 2 million acres. So we must look to the soybean industry to set the direction and program requirements that will make our oilseed industry fully competitive for domestic acreage and foreign markets. The sunflower industry is committed to supporting any approach adopted for soybeans that is equitable and acheives these objectives.

We have carefully examined several of the policy approaches that have been proposed for addressing planting flexibility and the need to restore competitiveness in the oilseed industry. With regard to the "Graduated Equity Loan" plan advanced by the American Soybean Association, we fully endorse the establishment of equitable income protection levels for oilseeds based on the target prices of crops that compete for acreage. In the case of oil-type sunflower, we have used cost-of-production data and the 1990 crop wheat target price of $4.00 per bushel to derive an income support of 10.2 cents per pound. The rate for confection sunflower, which has a higher production cost, would be proportionately higher.

Sunflower producers are prepared to accept ASA's proposal to factor any acreage reduction requirement into the income support level, and to restrict income protection to a portion of production, based on stock levels or some other trigger. Alternatively, we would be willing to establish an acreage base for sunflower and comply with ARP requirements in order to receive benefits, as under the regular farm programs.

One important area that the ASA plan does not address is the need to provide for planting flexibility. Our industry has lost most of its 1981 acreage, and our remaining crushing plants are operating at 50 percent of capacity. We need to regain acres lost to the wheat and feed grains programs over the past ten years, up to a level of at least 3 million acres. So we believe that some opportunity to plant sunflower on program acres -- either a percentage of base or under an NCA program -- must be part of the answer. Our analysis of the ASA plan indicates that the increase in acreage for all oilseeds would be substantially greater if producers were allowed to substitute freely on program crop acres.

We understand several members of the Committee may be considering the possibility of extending the marketing loan to oilseeds instead of adopting a traditional farm program. The sunflower industry actively supported the effort to establish a marketing loan for oilseeds in 1987 and 1988 as an effective means of competing for world markets with minimal government interference. We would be very interested in working with the Committee to develop a workable formula for an oilseed marketing loan in the farm bill if the Committee chooses this direction.

We have also examined the modified Normal Crop Acreage plan offered by Senators Leahy and Lugar in November. We appreciate the priority which the plan gives to increased planting flexibility, and the recognition that oilseeds must be addressed across-the-board. Sunflower acreage and prices did very well under the original NCA during the late 1970's. We also understand and support the objective of the program, to encourage the production of crops based on market prices, without regard to program benefits. Our only reservation is that some producers may use the opportunity to increase plantings of program crops in order to expand future program base acreage rather than increase oilseed production. We look forward to working with the Committee on the NCA concept as a promising approach for allowing sunflower acreage to expand.

A fourth approach under review is the so-called "flexi-ARP" concept, under which producers would have several alternative sets of income support and acreage reduction levels to choose from. Depending on how planting flexibility and oilseed income support are included, the sunflower industry is prepared to work with the Committee to develop an effective program.

Mr. Chairman, in our part of the country, sunflower is a valuable crop that works well in a rotation with a broad range of crops and environments. Its per-acre returns are usually better than most crop alternatives. It is as drought-hardy as wheat, and its deep root system draws on subsoil fertilizers, reducing potential groundwater contamination. In addition, sunflower oil is one of the healthiest on the market, and is priced at a premium in many foreign countries. It is the second largest produced oilseed in the world.

Our industry has never feared open competition with other crops for acreage or with other oilseeds for markets. We have learned to fear only competition with Federal program benefits and foreign subsidies and trade barriers. We have also learned that policy change is an evolutionary process that can take many years. Under the circumstances, the sunflower industry is convinced that our crop must have the incentive of an equitable income protection level in order to survive the next five years. We also need an opportunity to regain the acres sunflower has lost to program crops during the 1980's. This will allow us to restore our traditional position in export markets, especially in view of the GATT panel ruling that EC oilseed subdsidies are illegal.

We stand ready to work with you and other Members of the Committee in developing an effective and practical solution to the crisis facing sunflower and other crops in the U.S. oilseed industry.

Thank you very much.

Senator **Pryor**. Mr. Tom Graham.

Mr. **Graham**. Thank you, very much.

Senator **Pryor**. Where are you from?

Mr. **Graham**. Washington, Indiana, it is in the southwest part of the State.

Senator **Pryor**. I think that Indiana is taking over this hearing today. I do not know, we have a lot of good Hoosiers. We appreciate your being here, Tom, thank you.

STATEMENT OF TOM GRAHAM, GRAHAM FARMS, ON BEHALF OF THE U.S. CANOLA ASSOCIATION, WASHINGTON, IN

Mr. **Graham**. Thank you, Mr. Chairman.

INTRODUCTION

I am Tom Graham, a corn, soybean, wheat, canola and livestock farmer from Washington, Indiana. And I am appearing today on behalf of the U.S. Canola Association (USCA) which I serve as first vice-president. USCA represents producers, processors, seed companies, and others interested in the development of the canola and rapeseed industries in the United States.

Our association was formed in June of last year in response to the rapid growth of interest in canola among U.S. farmers, consumers, and agribusiness.

CANOLA IS A NEW CROP OPPORTUNITY IN THIS COUNTRY

While canola ranks third in the world oil consumption, canola is a new crop opportunity in this country. Commercial production began in 1985, when the Food and Drug Administration granted approval for the use of canola as a food product. Since then, several processing companies have set up crushing plants to handle canola, and growers are beginning to experiment with this new crop. We estimate that 80,000 acres of canola were grown in the United States in 1989.

DEMAND FOR CANOLA IN THE UNITED STATES HAS GROWN MUCH FASTER THAN DOMESTIC PRODUCTION

Demand for canola in the United States has grown much faster than domestic production. Canola has the lowest saturated fat content of any commercially marketed vegetable oil; about 6 percent. Food processors are using canola in snack foods and other products, as well as selling it in the bottled form. As a result, imports of canola oil last year, primarily from Canada, totaled the equivalent of 500,000 acres, worth about $100 million.

As a rule, some canola can be successfully grown wherever wheat is produced. Winter varieties are found in Winter wheat areas, including the Midsouth, the Midwest, Southern and Central Plains, and the Pacific Northwest. Spring varieties of canola are produced in the north-central region.

Canola is a good rotation crop, with an earlier harvest than wheat. It can be double-cropped with soybeans in the Midsouth. Canola also is beneficial to the environment, and requires less herbicides than most alternative crops.

Last but not least, Mr. Chairman, canola is profitable for the farmer. Its return over variable cost compares favorably to wheat and other traditional crops. Given projected growth in domestic demand, canola prices should continue to attract producer interest and domestic production should grow during the 1990's.

COMMENT BRIEFLY ON THE CURRENT FARM PROGRAM AND PROVIDE OUR POSITION ON THE 1990 FARM BILL

I would like to comment briefly on the current farm program and provide our position on the 1990 farm bill. The canola industry supported extension of the 20 percent substitution provision in the 1989 Disaster Act to maintain access to planting on program acres. Our experience last fall was that, due to several factors including the low wheat ARP, most producers in winter canola areas did not take advantage of the substitution option.

As a result, we joined with the sunflower industry in requesting USDA to allow planting of canola on conserving use acres under the 0/92 program for harvest in 1990, with deficiency payments on the planted acres. Unfortunately, the Department felt that this option will disadvantage producers who could not participate.

In our view, allowing producers to receive full program payments under this kind of substitution program would be the best way to broaden the opportunity to grow canola under the current program. Such a plan would be similar to the modified normal crop acreage (NCA) proposal introduced by Senators Lugar and Leahy. In addition, our industry favors providing producers with unrestricted flexibility for canola to be substituted for program crops.

As a very new crop, we are understandably concerned about any program that would restrict canola production to an historical acreage base. Even an NCA approach could inhibit production if producers could not continue to grow canola on free acres. Any base concept should be designed to allow producers to continue to build a canola base on free acres, and should have a shortened period for base building.

We are aware of a number of alternative proposals to provide some form of income protection in order to maintain or encourage soy oilseed production. As a new crop, with only a fraction of national oilseed production, canola is in no position to suggest whether and how oilseed income should be supported under such a plan.

It is clear, however, that any oilseed program that includes an income support feature must apply to canola as well as other crops. All oilseeds compete for the same or similar markets, and their prices are interrelated. If only one oilseed crop is provided with special benefits, it would severely disadvantage the others.

We would particularly note that the graduated equity loan proposal of the American Soybean Association would be extremely harmful to our industry if it were implemented only for soybeans. By allowing producers to market their crop at a posted county price and still receive income protection, there would be no floor for prices of other oilseeds.

Therefore, Mr. Chairman, we would urge you and other members of the subcommittee to include canola and rapeseed in any oilseed program that provides income protection or allows producers to market their crop at prices that are competitive in the international market. We do not support or oppose such an approach. But we simply do not want to be disadvantaged if such a program is adopted in this year's farm bill.

CONCLUSION

In closing, Mr. Chairman, the canola industry sees the current farm program as restricting the potential growth of canola production. If the income protection provided to farm program crops were equalized, our prospects would improve. Our bottom line is to be treated the same as other oilseeds with which we compete. Under the same conditions, we believe that canola offers major advantages that will sell the crop with no additional help from the Government. These benefits extend not only to the producer in the form of profitable prices, but to consumers who want a healthier diet.

This concludes my remarks, Mr. Chairman, and I will be glad to respond to any questions you may have.

[The prepared statement of Mr. Graham follows:]

Statement by Tom Graham
First Vice President, U.S. Canola Association

Subcommittee on Agricultural Production
and Stabilization of Prices
Committee on Agriculture, Nutrition, and Forestry
United States Senate

February 1, 1990

Good morning, Mr. Chairman and Members of the Subcommittee. I am Tom Graham, a corn, soybean, and canola farmer from Washington, Indiana. I am appearing today on behalf of the U.S. Canola Association, which I serve as First Vice President. USCA represents producers, processors, seed companies, and others interested in the development of the canola and rapeseed industries in the United States.

Our Association was formed in June of last year in response to the rapid growth of interest in canola among U.S. farmers, consumers, and agribusiness. Actually, food-quality rapeseed, which we call canola, has been produced for centuries in other countries. It is the primary oilseed grown in China, Western Europe, and Canada, which had about 8 million acres of canola in production last year.

In the United States, commercial production began in 1985, when the Food and Drug Administration granted "Generally Regarded as Safe" status to rapeseed varieties with low erucic acid content. Since then, several processing companies have set up crushing plants to handle canola, and growers are beginning to experiment with this new crop. We estimate that 80,000 acres of canola were grown in the U.S. in 1989.

Demand for canola oil in the U.S. has grown much faster than supply. With the lowest saturated fat content of any commercially marketed vegetable oil, food processors are introducing canola oil in formulas for a variety of snack foods and other products as well as selling it in bottled form. As a result, imports of canola oil in 1989, primarily from Canada, totalled the equivalent of 500,000 acres, worth about $100 million.

As a rule of thumb, canola can be successfully grown wherever wheat is produced. Winter varieties are found in Winter wheat areas, including the Mid-South, Midwest, Southern and Central Plains, and Pacific Northwest. Spring canola is produced in the North Central region.

Canola is a good rotation crop, with an earlier harvest than wheat. It can be double-cropped with soybeans in the mid-South. Canola also is beneficial to the environment, and requires less herbicide than most alternative crops.

Last but not least, Mr. Chairman, canola is profitable for the farmer. Its return over variable cost compares favorably to wheat and other traditional crops. Given projected growth in domestic demand, canola prices should continue to attract producer interest.

Mr. Chairman, canola is an opportunity for U.S. farmers that has created great interest in nearly all regions of the country. Provided that canola is not disadvantaged by farm programs, we anticipate significant expansion over the 1990's.

In this regard, I would like to comment briefly on the current farm program, and provide our position on the 1990 farm bill. The canola industry supported extension of the 20 percent substitution provision in the 1989 Disaster Act to maintain access to planting on program acres. Our experience last Fall was that, due to several factors including the low wheat ARP, most producers did not take advantage of the substitution option.

As a result, we joined the sunflower industry in requesting USDA to allow planting of canola on conserving use acres under the 0/92 program for harvest in 1990, with deficiency payments on the planted acres. Unfortunately, the Department felt that this option would disadvantage producers who could not participate.

In our view, allowing producers to receive program payments under this kind of substitution program would be the best approach to broadening the opportunity to grow canola under the 1985 farm bill. Such a plan would be similar to the modified Normal Crop Acreage proposal introduced by Senators Lugar and Leahy. In addition, our industry favors providing producers with unrestricted flexibility to for canola to be substituted for program crops.

As a very new crop, we are understandably concerned about any program that would restrict canola production to an historical acreage base. Even an NCA approach could inhibit production if producers could not continue to grow canola on free acres. Any base concept should de designed to allow producers to continue to build a canola base on free acres, and should have a shortened period for base building.

We are aware of a number of alternative proposals to provide some form of income protection in order to maintain or encourage oilseed production. As a new crop with only a small part of our national oilseed production base, canola is in no position to suggest whether and how oilseed income should be supported under such a plan.

It is clear, however, that any oilseed program that includes an income support feature must apply to canola as well as other crops. All oilseeds compete for the same or similar markets, and their prices are interrelated. If one oilseed crop is provided with special benefits, it would severely disadvantage the others.

We would particularly note that the Graduated Equity Loan proposal of the American Soybean Association would have an immediate and negative impact on canola production, if implemented only for soybeans. Not only would producers be attracted by its income protection features, but the plan would allow marketing of soybeans at the posted county price without any reduction in income. There would, in effect, be no floor for soybean prices -- or for prices of other unprotected oilseeds.

Therefore, Mr. Chairman, we would urge you and other Members of the Subcommittee to include canola and rapeseed in any oilseed program that provides income protection or allows producers to market their crop at prices that are competitive in the international market. We neither advocate nor oppose such an approach. But we do not want to be disadvantaged if such a program is adopted in this year's farm bill.

In closing, Mr. Chairman, I would emphasize that the canola industry sees the farm program as part of our production and marketing environment, not as a problem or a necessity. Under the current program, expanding canola production is difficult, perhaps impossible. If the income protection provided to program crops were equalized, our prospects would improve. Our bottom line is to be treated the same as the other oilseeds with which we compete. Under the same conditions, we believe that canola offers major advantages that will "sell" the crop with no additional help from government. These benefits extend not only to the producer in the form of profitable prices, but to consumers who want a healthier diet.

This concludes my remarks, Mr. Chairman. I will be glad to respond to any questions you or other Members of the Subcommittee may have.

Senator Pryor. Thank you, very much, for your participation this morning and your contribution to the hearing.

Mr. Jorgensen, a question and you do not need to take a great deal of time but if you will just kind of hit the high points for me.

Tell me how, if you would, the Soybean Association sort of arrived at the formula for your graduated equity loan proposal? Especially with the differentials for cotton and corn; how did you approach this and how did you walk through it, if you do not mind telling us?

Mr. Jorgensen. I would be glad to sort of summarize what we did. We looked at where were the competing crops for the soybeans, what crops were competing with soybeans for acreage. In other words, if a farmer made a decision to plant one crop or the other, what crops are we looking at? That was primarily corn in the Midwest and cotton in the South. Those were the primary crops that we looked at.

And we said, what are the historical price relationships between those crops and soybeans, and then we looked at the target price for those crops, plus the ARP's and so that we developed a formula that takes into account, the target prices, the ARP's, and then factor that by the total acreage mix of those two crops in the United States, so that you get a blended average. Obviously that is weighted toward corn because there is 85 percent of the total acreage in corn, 15 percent in cotton and that becomes then the weighted average price that we establish the GE loan at.

Then that price is factored up or down and the percentage of the crop up or down by stocks, that the U.S. Government would determine.

You know, in a thumbnail, what it is doing is trying to equate the soybean price, the GE loan, with the target price set-asides of those other crops.

Senator Pryor. I am still trying to comprehend this and some day I may. But now, let me ask this question.

If this committee and the Congress, and ultimately the President, proposed a marketing loan for soybeans, would the American Soybean Association support this?

Mr. Jorgensen. Certainly there are aspects of this program that are very similar to a marketing loan. We say again and in my prepared testimony I say again, we must have income support and program flexibility. If we have those two things, whatever comes out of this committee—and understand we put the GE loan on the table as a vehicle for discussion—we think it is important enough for people to talk about this and not sweep it under the table. If we have those two things in a bill—income protection and planting freedom for soybean farmers—we would support such a proposal.

Senator Pryor. I see.

I think it is very fascinating that the Soybean Association has proposed something of this magnitude for us to discuss and put on the table.

If we have a marketing loan, and I can ask this to Tom and Thad, if we have a marketing loan, for soybeans, would we not then be pretty well committed to a marketing loan for all oilseed, sunflower, et cetera, that would just follow?

Could you answer this, please?

Mr. **Graham**. As far as canola would be concerned, something would have to parallel. We are importing so much. Just to show you the growth, 2 years ago we were importing 175,000 acre equivalents, and now it is over 500,000.

So for a crop that has only been allowed to grow since 1985, we do not have anywhere to put it under present policies, and being an oilseed to compete with other oilseeds, even though it is a specialty market, it is based upon soybean prices, soybean oil.

So without including canola and sunflower, for example, those oils would be put at a great disadvantage.

Senator **Pryor**. Mr. Anderson's sunflowers, what would your position be on this?

Mr. **Anderson**. Our position would be the same. Any of the proposals that are looked at, we would have to say that they would have to include all oilseeds, because if you did something different for each of them, there would be ways that each of them would be disenfranchised somewhere or another.

I think putting them in one package and treating them equally across the board, would be the proper way to do it, and I am sure it is the capable way.

You have to remember that like in the case of sunflowers, the program that we compete against is wheat, where in soybeans it is basically corn or cotton, or in some cases, maybe rice.

But the mix ends up the same or the problem ends up the same. So you can solve the problem by doing exactly the same thing for sunflowers as you do for the other oilseeds.

Senator **Pryor**. Thank you, sir.

Thad, do you have any comments on this?

Mr. **Freeland**. Senator, I would plead to be a farmer in this issue and just pass on that.

Senator **Pryor**. Thank you, very much.

Senator Conrad.

Senator **Conrad**. Thank you, Mr. Chairman, just briefly.

Does the Soybean Association support equivalent treatment for all of the oilseeds?

Mr. **Jorgensen**. We have to be, you know, we are soybean farmers and we have to be for what is good for soybeans and I can appreciate the views of the other oilseed industry. If they choose to have the same kind of program that we did we think that is their business and we would not oppose that.

Certainly we are not going to oppose something that is good for the farmers, but we are only dealing in our instance, with the soybean industry.

Senator **Conrad**. Let me ask you this question.

From the Soybean Association's point of view, what would happen to other oilseeds, if we had a program for soybeans and left out the others?

Mr. **Jorgensen**. I think that is difficult to say depending on what else happens in the program. If you just take our program and nothing else is changed, no additional flexibility things happen, or anything like that, then there would be, I think, and both gentlemen indicated probably some adverse effects. But if some other things were done, maybe not.

And so I think it is difficult to just give you a single answer to that.

Senator **Conrad**. Are you sure?

Mr. **Jorgensen**. Yes, as I said, if there are some other things done that allow them to compete in a different manner, then I think that they would have some equality—if other things are not done, then obviously it would be a disadvantage.

Senator **Conrad**. I think that is the most important point I want to make here, Mr. Chairman. Mr. Gardner made the point earlier. That whatever you do, in oilseeds, we have to do with all of the oilseeds, because if we do not, absent some other action, obviously we would seriously hurt those that were not included. Ultimately, it would be counterproductive.

I really think that is the important point to make here.

Senator **Pryor**. Thank you, Senator Conrad.

Senator Cochran.

Senator **Cochran**. Mr. Chairman, thank you.

I remember last year when we passed the checkoff bill, here in the Senate, and we had hoped that the House would act also on that legislation and we could actually get a bill that the President could sign and could take effect this year, but it did not work out that way last year because of problems in the other body with the bill.

But we hope that we can resurrect that and get that moving again. I think that it has possibilities for improving our research in terms of doing something about these low yields that Mr. Freeland talked about, in the South particularly, and also could help us stimulate market growth, help us sell more.

Domestically in the international market, we talked about how the market collapsed domestically, the market is flat domestically, and that is a way to get at this. And I know the soybean industry has indicated a willingness to use its own money to pay for this research and this market development.

I wonder, in connection with that, we were talking about the other oilseeds, were the other oilseeds included in that legislation in terms of coming forward and wanting to contribute with sunflowers or canola? Do you remember that?

Mr. **Anderson**. In which legislation?

Senator **Cochran**. The checkoff bill. Is there a program for sunflower producers to contribute some of their money to research?

Mr. **Anderson**. We have a State checkoff that we just doubled in North Dakota. South Dakota did the same thing. They just doubled their checkoff this last year. And we made oilseed organizations out of them, and included canola and safflower in those two and flax. And they are the two major States of production of sunflowers and flax and spring canola. And so, at this time, we have not made any efforts to broaden it as a national checkoff because we are not involved in that many States.

We have worked with Kansas to develop a checkoff, and we will work with States that increase their acreages to build a checkoff. But I do not anticipate that we will do it on a national basis because of the limited number of States involved.

Senator **Cochran**. What about the canola industry, Mr. Graham?

Mr. **Graham**. With canola, we were only formed in June of last year. We discussed checkoff, but there again we are 80,000 acres. Not very many farmers involved yet because there is no land to put it on.

So, until we grow and get a larger farmer base, which is directly tied to acres, a checkoff would be further down the road.

Senator **Cochran**. I am intrigued by the suggestion that we include in the farm bill the graduated equity loan. And from what I have learned about it so far, it sounds like a very attractive option just from my point of view.

So I come at the process thinking that you may have something that is worth trying. And that is what it would be. It would be worth trying.

And I remember when Senator Pryor and I were recommending the marketing loan program for cotton and rice, we did not know how it was going to turn out then. And there were some skeptics who were worried that the price would go down so low you would break all the farmers who were producing under that program, or break the Government, or both.

So it was a risk, it was an experiment. But it turned out to be a success. I just wonder if the industry has thought through the risks, the downside. What do you say to the producer who says you are going to run the price right down to the bottom? Would we do that if we approved the graduated equity loan?

Mr. **Jorgensen**. We would think not, and we would think that your experience in the past programs would indicate that would not happen.

Certainly there are naysayers out there who would suggest that wide open wholesale increase in acreage is going to drive soybean prices lower. That is the need for that safety net, that income protection to protect those soybean farmers in case something unforeseen would happen.

We would see in the past history of various programs that large acreage shifts are not going to happen—we are not going to go student body left and put the whole United States into soybeans, that is not going to happen with this program, particularly when you have a portion of that crop that is always subject to market risk.

I think farmers such as myself try too look at the big picture in terms of your total farm and not just make a 1-year decision one way or the other.

Incidently, we thank you very much for your support of the checkoff bill. We are very anxious to get that moving. We think that does have real potential to expand our markets and to help us solve this problem. Now, we need to address getting the acreage to fulfill those needs

Thank you.

Senator **Cochran**. Well, I am hoping too that there can be some assurance in the way the program is developed and included in the bill if we can get the votes to put it in the bill. That would also serve as kind of a safety net for the taxpayer.

We cannot have a program that is just unlimited in terms of potential cost to the Government because we will not be able to get it passed or get it signed by the President. So that is a challenge, and I do not know how we come up with that.

I wonder what your reaction to that is. Could the Government cost go so high that they would jeopardize support for the farm bill?

Mr. **GRAHAM**. Somebody tell me whether it is going to rain or not next year, and I will tell you what the price of beans and corn is going to do, and that will determine what the prices might be, I guess.

We all know that prices are more determined by the weather than probably anything else. I do not think that there is that real potential to get exorbitantly out of line. As I said, in my area, we are going to get to somewhere on a 50–50 rotation. We are not going to move beyond that in the Midwest unless something other unforeseen happens.

So I do not see that that cost getting is that exorbitant. You have to go back and look at some history. In the last 10 years, the prices of soybeans hinged (or ranged) between $5.50 and $6.50. Most recently, they average about $6.22 in my area. If the average price of soybeans for 10 years is $6.22, and that is the GE loan, it appears that there should not be, over the along run, great Government exposure.

Any one year, you could see a spike up or down, depending what happened, as I said, with the weather. But if we establish that loan at about where the average market price of soybeans is, it should not create excessive demand over the long run.

Senator **COCHRAN**. I appreciate very much this panel being here. And I could not help but think that one witness and I have a lot in common. We have a name in common.

Mr. **FREELAND**. Thad. [Laughter.]

Senator **COCHRAN**. Mr. Chairman, in the reelection campaign in 1984, some friends had these bumper stickers printed up for me, and I am going to give these to Mr. Freeland to put on his truck. [Laughter.]

Mr. **FREELAND**. Thank you.

Senator **PRYOR**. That has to be approved by me. If that is going to be around Tillar, Arkansas, it does not say anything about vote Republican, does it, or anything?

Senator **COCHRAN**. Just says "Thad."

Senator **PRYOR**. Yes, right. That is right. You will have a great man sticker on your car I will say to my friend from Tillar Arkansas.

Senator McConnell.

Thank you, Senator Cochran.

Senator **MCCONNELL**. I have a question of Mr. Anderson and Mr. Graham.

If you were included, do you understand the graduated equity loan? Do you agree with that?

Mr. **ANDERSON**. I do not understand the graduated equity loan as well as I do the marketing loan. But I understand the concept is close enough to the same that I could accept it.

Mr. **GRAHAM**. We feel the same way with soybeans. We understand the principles. It is just working in the details to meet the soybean needs.

Senator **PRYOR**. Thank you, Senator McConnell.

Any further questions? I may have one question very quickly.

There is a lot of talk, even perhaps by some members of this committee, just to extend the present farm bill, the 1985 farm bill, 1 year. OK.

If we did that, what happens to the oilseed industry? What happens to soybeans, sunflowers, canola, all oilseeds? What happens?

Mr. **Jorgensen**. Senator, if you look at the trends, we cannot afford this trend to continue where we are constantly decreasing acreage and losing market share. I think that would be one of the worst of all evils if we allowed that to continue.

Let me give you a personal example. I have a son who has come back in the farming operation in the last 2 years. He is not an established farmer, and so some of the acreage that he can farm is only that which has a relatively low base, and perhaps he depends more on soybeans than some other farmers might.

The last 2 years have not been very profitable or very good for him. He came to me this fall and said, dad, I do not know whether there is a future for me in agriculture. And we had several long serious discussions. And he is a bright young man. At least his mother says so. He is a bright young man and he is trying to make a lifetime decision.

And he came back to me a month or so ago, and said, dad, I am going to farm for 2 more years. And I said why 2 more years? He said by that time, we will know what the 1990 farm bill is going to do for me in terms of soybeans, et cetera. We will also know what GATT is going to do. And those two things will determine whether there is a future for me in agriculture.

And I say I think that is the pressing need. We need good young people in agriculture. We need to do something for soybeans today, and we do not mean to push this aside.

Senator **Pryor**. Any further comments in answer to that particular question?

If not, let me ask once again our friend, our Arkansas fan, a question here, Senator Cochran.

You also grow rice and cotton? How, then, that we talked about the marketing loan, and Senator Cochran and myself I guess, it depends on who we talked to when we claimed we are responsible for that. [Laughter.]

Thad, how is it working for you as a farmer, the rice and cotton, the marketing loan, that program?

Mr. **Freeland**. After the initial fall in the prices, everything has been really good. I mean it worried us there when it first started, but with you all's assurances, we just think the best of it. And as far as Arkansas goes, I believe every organization is on record for supporting it in soybeans.

Senator **Pryor**. Do you support then the reinstitution of the marketing loan for rice and for cotton?

Mr. **Freeland**. Yes, sir.

Senator **Cochran**. Mr. Chairman, I think it is worth noting for the record that, at the first hearing, in preparation for writing the 1985 farm bill, the first witness is here with us today out in the audience who proposed that we consider including the marketing loan in that farm bill. It is Wayne Boutwell. He is sitting out in the audience.

Senator **Pryor**. And I also remember one cold winter morning, Senator Cochran, Mr. Boutwell, yourself, and our agricultural aide, we got together either in your office or mine, and we started talking about this. And Mr. Boutwell explained this thing to me about 12 times and I never did know if I knew it. And I would say, "but will it work?" And he says yes. So I said let us go with it. [Laughter.]

So, every now and then, you have to try something new around here. But, Mr. Boutwell, we do certainly recognize your presence here.

We want to thank our very distinguished panel and the contributions that you have made. And this is going to begin a very lively discussion on the concerns that we are going to be dealing with.

Thank you for helping with trying to supply some answers.

We are going to call our final panel now. And that is a panel of two distinguished gentlemen, Lockwood Marine from Fort Wayne, Indiana. Mr. Marine is the senior vice president for commodities, Central Soya Company. Mr. John Burritt, the executive vice president of National Sun Industries, Minneapolis, Minnesota.

Mr. Marine, we will ask you, if you would, to lead off. And we look forward to your statement. Thank you for coming from your home State, and we are proud you are here.

STATEMENT OF C. LOCKWOOD MARINE, SENIOR VICE PRESIDENT FOR COMMODITIES, CENTRAL SOYA COMPANY, INC., VICE CHAIRMAN OF THE BOARD, NATIONAL OILSEED PROCESSORS ASSOCIATION, FORT WAYNE, IN

Mr. **Marine**. Thank you, Mr. Chairman.

We appreciate the opportunity to appear here today. I know in the interest of time I will try and make my comments very brief.

I would like to commend for the committee's reading a case which we presented yesterday, and which most of the staff members have. It is called The Case for Planting Flexibility: An Oilseed Perspective.

So, if I may, I would like to include a copy of that.[10]

Senator **Pryor**. Thank you, sir.

Mr. **Marine**. The problems of the oilseed industry have been very well defined here this morning by others. Many of the options for correction have been presented. So I will not dwell on many of those issues.

THE PROBLEM OF THE OILSEED INDUSTRY IS REAL, IT IS ENORMOUS AND, FRANKLY, IT IS DEVASTATING TO U.S. AGRICULTURE AND TO U.S. AGRIBUSINESS

However, I would like to emphasize in the strongest possible terms that the problem of the oilseed industry is real, it is enormous and, frankly, it is devastating to U.S. agriculture and to U.S. agribusiness.

My company was one of the ones that closed one of those 22 plants that Senator Lugar mentioned in his opening comments. My company is also one that converted a plant to attempt to crush canola in the Southeast because, frankly, we did not see any growth in soybeans occurring, and we hoped that we would find something that we could use that investment for in a profitable manner.

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[10] The Case for Planting Flexibility: An Oilseed Perspective, prepared by Abel, Daft & Earley for the Oilseed Council of America, January 1990, is retained in the subcommittee file.

TO GET SOME GROWTH IN U.S. AGRICULTURE, WE NEED TO GO WHERE THE GROWTH IS

In essence, what I am about to say is, to get some growth in U.S. agriculture, we need to go where the growth is. To help feed Eastern Europe, to continue our sales to Soviets, to continue to generate foreign exchange, we have got to encourage oilseeds rather than discouraging them.

Now, what the U.S. oilseed industry needs, and what we as processors want boil down to a very simple couple of points. And to be effective, frankly we have to have them both.

WE NEED A HEALTHY PRODUCER WITH THE INCOME AND FLEXIBILITY TO PRODUCE

The first thing we need is a healthy producer with the income and the flexibility to produce so that our products, whether they be oilseeds or the products from them, can compete around the world. Flexibility can come from any one of several ways: the Lugar-Leahy bill, the normal crop acreage, or any other plan that does not distort planting intentions.

Frankly, we believe that our cost of production, of marketing, and processing can compete with any area in the world. So I am not afraid of the South Americans, whether it be producing or any other aspect. We know that we can beat them in terms of processing.

Flexibility and income support are not mutually exclusive. We can provide any level of income support that Congress in its wisdom desires to do, and we can still have flexibility, and more flexibility is better than less.

The income support for oilseeds does not have to come from some other crop. We can save enough money in not storing and not moving around surplus commodities like those that we have been producing that the market did not need, to pay whatever cost there may be in promoting and supporting the oilseed sector.

However, an expansion alone of our production and our acreage is not enough. If we do not have some place to go with it, it will not do any good to produce it.

INDUSTRY NEEDS A REDUCTION OR ELIMINATION OF UNFAIR TRADE PRACTICES

So the second point that the industry needs is a reduction or elimination of the unfair trade practices of our competitors, whether they be the export subsidies from the EEC, or the differential export taxes in Argentina.

All we ask for as producers or processors is a level playing field. Now, we know that the GATT panel has said that the EEC subsidies are illegal, but frankly the Europeans are stalling on coming up with a solution.

Argentina has twice promised our Government that they would correct their differential export taxes, and they reneged twice. We still have them causing the same problem for our producers and for we processors as they did before.

Frankly, there is a solution. If the Europeans or the South Americans do not correct these problems, we can send a very clear signal to them, start right now quickly and often with EEP's. Hit them right in the budget. That appears to be the only thing that they recognize.

IN SUMMARY

In summary, the demand is there, the world demand is growing. We have the best and most efficient agriculture marketing and processing system in the world. It is time we start using it.

Thank you very much.

[The prepared statement and attachment of Mr. Marine follow:]

TESTIMONY OF C. LOCKWOOD MARINE

Sr. Vice President for Commodities
Central Soya COMPANY, Inc.
Ft. Wayne, Indiana
Vice Chairman of the Board
NATIONAL OILSEED PROCESSORS ASSOCIATION

before the Subcommittee on
Agricultural Production and Price Stabilization,
Senate Committee on Agriculture, Nutrition and Forestry

Thursday, February 1, 1990

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THANK YOU, MR. CHAIRMAN, FOR THIS OPPORTUNITY TO TESTIFY BEFORE THIS SUBCOMMITTEE.

FOR THE U.S. OILSEED CRUSHING INDUSTRY, AND FOR AGRICULTURE IN GENERAL, TODAY IS AN IMPORTANT MILESTONE.

TODAY, THE UNITED STATES SENATE TURNS ITS ATTENTION TO THIS NATION'S NUMBER ONE CASH COMMODITY--AND ITS NUMBER ONE POLICY CASUALTY--OILSEEDS. AND, IT BEGINS THE PROCESS OF DECIDING WHAT, IF ANY, PRIORITY THIS IMPORTANT CASH CROP DESERVES IN CONSTRUCTING THE 1990 FARM BILL.

I AM HERE BEFORE YOU TODAY TO MAKE ONE SIMPLE, BUT STRONG RECOMMENDATION:

> THAT IN DEVELOPING THE NEXT FARM BILL, ADDRESSING THE SERIOUS DECLINE IN THE U.S. OILSEED SECTOR SHOULD BE A TOP PRIORITY FOR THIS CONGRESS, AND THAT NO LEGISLATION THAT FAILS THIS TEST SHOULD BE PASSED.

IN THE BRIEF TIME I HAVE, I'D LIKE TO EXPLAIN TO YOU WHY THIS DECLINE HAS OCCURRED, WHY REVERSING THE DECLINE IN OILSEEDS IS SUCH A PRIORITY, AND HOW OUR INDUSTRY BELIEVES THIS CAN BEST BE ACCOMPLISHED:

FIRST, A QUICK REVIEW OF THE MAGNITUDE OF THE PROBLEM AND ITS CAUSES.

MR. CHAIRMAN, THE WORLD MARKET FOR OILSEEDS AND OILSEED PRODUCTS IS A GROWING AND DYNAMIC ONE. IN FACT, THE LEVEL OF WORLD TRADE IN OILSEED PRODUCTS, AND WORLD CONSUMPTION FOR THESE PRODUCTS ARE BOTH GROWING AT FOUR TO SIX PERCENT ANNUALLY, MORE THAN TWICE THE RATE OF WHEAT, COARSE GRAINS AND OTHER COMMODITIES.

ANNUAL WORLD GROWTH IN WORLD PROTEIN MEAL CONSUMPTION ALONE AMOUNTS TO THE EQUIVALENT OF OVER 200 MILLION BUSHELS OF SOYBEANS!

AND, THE FUTURE FOR WORLD OILSEED AND OILSEED PRODUCT MARKETS LOOKS EVEN BRIGHTER. AS THE WORLD POPULATION GROWS, AS THE STANDARD OF LIVING IN DEVELOPING COUNTRIES GROWS, AND AS EXCITING NEW MARKETS IN EASTERN EUROPE AND CHINA EXPLODE, DEMAND FOR OILSEEDS AND OILSEED PRODUCTS WILL GROW EVEN FASTER.

OF COURSE, MR. CHAIRMAN, THE U.S. REACTION TO THESE OPPORTUNITIES IS IRONIC AND UNSETTLING. AGAINST THIS BACKDROP OF GROWTH AND OPPORTUNITY, THE U.S. PRODUCTION OF OILSEEDS HAS FALLEN BY 15 MILLION ACRES, AND OUR MARKET SHARE OF WORLD TRADE IN OILSEEDS, HIGH PROTEIN MEALS AND VEGETABLE OILS HAS FALLEN DRAMATICALLY.

IN MY INDUSTRY, WE'VE CLOSED 22 PROCESSING PLANTS ACROSS THE U.S. OVER THE LAST DECADE, AND AS THE APPENDIX ATTACHED TO MY TESTIMONY SHOWS, MANY OF THOSE PLANTS WERE CREATING NEAR-BY MARKETS AND JOBS FOR FARMERS AND WORKERS IN THE STATES REPRESENTED BY THE MEMBERS OF THIS SUBCOMMITTEE.

AND, MR. CHAIRMAN, THIS LOST OPPORTUNITY WAS NOT INSIGNIFICANT. A STUDY, RELEASED YESTERDAY BY *THE OILSEED COUNCIL OF AMERICA*, A COALITION OF GROWERS, PROCESSORS AND USERS OF OILSEEDS, SHOWS THAT, IF THE U.S. HAD MAINTAINED ITS 1981 MARKET SHARE FOR OILSEEDS AND PROTEIN MEAL, ANNUAL EXPORTS DURING THE PERIOD COVERED BY THE 1985 FARM BILL WOULD HAVE BEEN HIGHER BY 200 MILLION BUSHELS OF SOYBEANS, 2.4 MILLION TONS OF SOYBEAN MEAL, AND 1.2 BILLION POUNDS OF VEGETABLE OIL, COMMODITIES WORTH OVER $1.5 BILLION!

THESE EXPORT SALES WOULD HAVE MADE IT POSSIBLE FOR U.S. FARMERS TO PRODUCE ON AN ADDITIONAL NINE MILLION ACRES! INSTEAD, FOR EVERY ACRE OF OILSEED PRODUCTION WE GAVE UP, SOUTH AMERICA HAS REACTED BY INCREASING PRODUCTION OF OILSEEDS BY 1.3 ACRES!

WHY HAVEN'T WE RESPONDED TO THIS GROWING DEMAND? THERE ARE TWO REASONS:

FIRST, OUR FARM PROGRAMS SINCE 1981, AND ESPECIALLY IN THE 1985 LEGISLATION, ENCOURAGED THE PRODUCTION OF TARGET PRICE CROPS, EVEN WHEN THEY ARE IN SURPLUS, AND STRONGLY DISCOURAGE THE PRODUCTION OF NON-PROGRAM CROPS AND OILSEEDS, EVEN WHEN PRICES FOR THESE COMMODITIES ARE VERY HIGH, AS WE SAW DURING THE LAST FEW YEARS. THIS PROBLEM WITH OUR PROGRAM IS WELL-KNOWN TO THIS COMMITTEE AND I WILL NOT REPEAT THE OBVIOUS TODAY.

THE SECOND REASON FOR THE DECLINE IS AN INTERNATIONAL ONE. WE FACE HEAVILY SUBSIDIZED COMPETITION ABROAD, AND HAVE SEEN OUR MARKETS DISPLACED BY SOUTH AMERICAN AND EUROPEAN TRADE.

THE TRADE PRACTICES AND DOMESTIC SUBSIDIES USED BY THESE COUNTRIES TO TAKE OUR MARKETS HAVE BEEN WELL DOCUMENTED. THEY INCLUDE THE USE OF DIFFERENTIAL EXPORT TAXES BY OUR SOUTH AMERICAN COMPETITORS, ESPECIALLY ARGENTINA, WHERE THE EXPORT TAX ON PRODUCTS IS LOWER THAN THAT APPLIED TO RAW COMMODITIES. THESE PRACTICES ARE CURRENTLY THE TARGET OF OUR SECTION 301 COMPLAINT, AND ARE SPECIFICALLY NAMED IN THE U.S. GATT PROPOSAL AS UNFAIR TRADE PRACTICES.

AND THE EUROPEAN OILSEED PRODUCTION AND PROCESSOR SUBSIDIES, WHICH PAY EC OILSEED GROWERS AS MUCH AS THREE TIMES THE WORLD PRICE FOR OILSEEDS, HAVE JUST RECENTLY BEEN FOUND TO VIOLATE OUR DUTY FREE BINDINGS.

BUT LET ME MAKE ONE POINT VERY CLEAR!

SHOULD WE REALIZE VICTORIES SUCH AS THE AMERICAN SOYBEAN ASSOCIATION'S SUCCESSFUL SECTION 301 COMPLAINT AGAINST THE EC, OR IN THE OUTCOME OF GATT, BUT HAVE NOT PUT OUR OWN HOUSE IN ORDER IN TERMS OF DOMESTIC POLICY, WE WILL NOT BE ABLE TO CAPITALIZE ON THESE ACHIEVEMENTS, AND OUR COMPETITION WILL BE THE ONLY WINNERS.

SO, WHAT SHOULD BE DONE TO REVERSE THIS DECLINE?

THE ANSWER IS SIMPLE---RETURN THE RESPONSIBILITY FOR FARM MANAGEMENT, AND SPECIFICALLY, FOR PLANTING DECISIONS, TO FARMERS. GIVE FARMERS "GENUINE" PLANTING FLEXIBILITY, AND ALL WILL PROSPER, INCLUDING FARMERS, PROCESSORS, CONSUMERS AND TAXPAYERS.

MR. CHAIRMAN, EVERYONE LIKES TO GIVE LIP SERVICE TO THE CONCEPT OF PLANTING FLEXIBILITY. WE WANT TO BE MORE SPECIFIC.

"GENUINE" PLANTING FLEXIBILITY EXISTS WITHIN A FARM PROGRAM ENVIRONMENT WHEN THE PROGRAM IS NEUTRAL WITH REGARD TO PLANTING DECISIONS.

GENUINE PLANTING FLEXIBILITY ALLOWS MARKET FORCES AND AGRONOMIC CONSIDERATIONS TO DRIVE PLANTING DECISIONS, RATHER THAT ARBITRARY PROGRAM INCENTIVES. THIS IS CRITICAL IF U.S. AGRICULTURE IS TO PROSPER IN THE COMING DECADE, AND THE BENEFITS SUCH A PROGRAM ENVIRONMENT WOULD PROVIDE FOR OILSEEDS ARE AS VALID FOR ALL OTHER COMMODITIES AS THEY ARE FOR OILSEEDS.

THERE ARE THREE GENERAL REASONS FOR CONGRESS TO GIVE FARMERS GENUINE PLANTING FLEXIBILITY:

FIRST, IT WOULD ENABLE U.S. FARMERS TO PARTICIPATE IN AND BENEFIT BY THE MOST RAPIDLY GROWING MARKETS, SUCH AS THAT I'VE DESCRIBED FOR OILSEEDS AND OILSEED PRODUCTS.

SECOND, IT WOULD SIGNIFICANTLY INCREASE FARM INCOME BY REDUCING PRODUCTION COSTS, INCREASING YIELDS AND ALLOWING FARMERS TO PURSUE SHORT-TERM PROFIT OPPORTUNITIES.

AND FINALLY, GENUINE PLANTING FLEXIBILITY WOULD HAVE VERY SIGNIFICANT ENVIRONMENTAL BENEFITS.

AS I SAID, MANY WANT TO TALK ABOUT FLEXIBILITY, MR. CHAIRMAN, BUT AREN'T SURE HOW TO MEASURE ITS BENEFITS AGAINST WHATEVER PERCEIVED RISKS MAY BE ASSOCIATED WITH IT. AGAIN, LET'S BE SPECIFIC.

THE STUDY I ALLUDED TO EARLIER ESTIMATES THAT FARMERS COULD SAVE AS MUCH AS $1-2 BILLION PER YEAR IN PRODUCTION COSTS IF THEY WERE ALLOWED BY THE PROGRAM TO USE SOUND CROP ROTATION AND FARM MANAGEMENT PRACTICES.

OF COURSE, THIS ESTIMATE IGNORES THE INCOME THAT COULD BE DERIVED FROM PLANTING CROPS THAT ARE IN GREATEST DEMAND, OR THE BENEFITS THAT COULD BE ACCRUED ON THE FARM FROM THAT ADDITIONAL $1.5 BILLION IN ANNUAL EXPORTS WE'VE LOST OVER THE LAST SEVERAL YEARS.

THESE ESTIMATES ARE BASED ON A 1988 USDA SURVEY THAT SHOWED, SURPRISINGLY, THAT IN THE THREE CROP YEARS 1986 THROUGH 1988, AN ESTIMATED 23 PERCENT OF ALL PROGRAM CROP ACREAGE WAS CONTINUOUSLY PLANTED TO THE SAME PROGRAM CROP! AND, ONE OF THE BIGGEST REASONS WAS OUR FARM PROGRAMS.

THIS LEVEL OF MONOCULTURE, WHICH IS ENCOURAGED BY THE PROGRAMS, HURTS EVERYONE IN EVERY REGION. IN THE SOUTH, SMALL CORN, WHEAT AND COTTON BASES ENCOURAGE GROWERS TO PLANT CONTINUOUS SOYBEANS ON THE REST OF THEIR FARMS, CREATING COSTLY CYST NEMATODE PROBLEMS. IN THE MIDWEST, CORN YIELDS FALL AND COSTS INCREASE ON CONTINUOUSLY PLANTED CORN ACRES. AND, IN THE WEST, WHEAT YIELDS COULD BE IMPROVED BY FIVE TO TEN BUSHELS PER ACRE WHEN PLANTED AFTER ANOTHER CROP.

FINALLY, MR. CHAIRMAN, U.S. AGRICULTURE IS A CONSTITUENCY CONCERNED AND READY TO ACT TO PROTECT OUR ENVIRONMENT, AND ONE OF THE FIRST AND MOST EFFECTIVE ACTIONS CONGRESS CAN TAKE TO ADDRESS GROUND AND SURFACE WATER CONTAMINATION PROBLEMS IS TO GIVE FARMERS GENUINE PLANTING FLEXIBILITY.

MANY SPECIFIC FARM PROGRAM PROPOSALS HAVE BEEN TALKED ABOUT AND MANY MORE WILL SURELY COME. BUT OUR INDUSTRY BELIEVES THAT THE 1990 FARM BILL SHOULD ACHIEVE THE FOLLOWING GOALS:

-- ELIGIBILITY FOR FUTURE PROGRAM BENEFITS SHOULD NOT BE INFLUENCED BY WHAT A PRODUCER PLANTS TODAY.

-- THE COMMODITY PROGRAMS SHOULD NOT DISTORT MARKET PRICE RELATIONSHIPS.

-- THE PROGRAMS SHOULD NOT INHIBIT A PRODUCER FROM PURSUING SHORT-TERM PROFIT OPPORTUNITIES, BY INFLUENCING HIS PLANTING DECISIONS.

--IT SHOULD NOT ENCOURAGE PRODUCERS TO PLANT CROPS THAT ARE CLEARLY IN SURPLUS, IN CONTRAST TO MARKET SIGNALS.

--AND, A SOLID FARM PROGRAM SHOULD ENCOURAGE SOUND CROP ROTATIONS.

IN ADDITION, MR. CHAIRMAN, OUR INDUSTRY BELIEVES THAT CROP-SPECIFIC ACREAGE REDUCTION PROGRAMS, CALLED ARP'S, ARE COSTLY TO FARMERS, REDUCE OUR COMPETITIVENESS, AND IN SHORT--GIVE OUR COMPETITORS A FREE RIDE! IN A PROGRAM ENVIRONMENT BASED ON MARKET SIGNALS, THEY CAN BE ELIMINATED. AT A MINIMUM, THEY SHOULD BE REPLACED WITH A SYSTEM SUCH AS THE PAYMENT ACRE PLAN, OR A SYSTEM OF SET-ASIDE SHOULD BE USED.

GIVEN THESE CRITERIA, OUR INDUSTRY STRONGLY SUPPORTS THE PROPOSAL INTRODUCED BY SENATORS LUGAR AND LEAHY. BUT, WE BELIEVE THESE

CRITERIA CAN BE MET IN OTHER WAYS, AND WE STAND READY TO SUPPORT OTHER PROPOSALS THAT DO SO AS WELL.

I'D LIKE TO MAKE ONE LAST POINT, AND I BELIEVE IT IS AN IMPORTANT ONE. WE STRONGLY BELIEVE THAT THE GOALS OF PLANTING FLEXIBILITY AND THAT OF PROTECTING FARM INCOME ARE VERY MUCH COMPATIBLE. THEY CAN AND SHOULD BE LOOKED AT AS SUCH.

FARMERS SHOULD NOT BE EXPOSED TO MISLEADING AND RHETORIC, AS I'VE HEARD MANY TIMES OVER THE PAST YEAR, THAT SUGGESTS THAT FLEXIBILITY REQUIRES FARMERS TO GIVE UP INCOME PROTECTION. INCOME PROTECTION AND FLEXIBILITY IS NOT AN EITHER-OR PROPOSITION.

IN FACT, AT ANY LEVEL OF PROGRAM SPENDING FOR INCOME PROTECTION, PLANTING FLEXIBILITY WILL ALLOW YOU TO MORE EFFECTIVELY AND MORE EFFICIENTLY DIRECT THOSE LIMITED DOLLARS TOWARD YOUR OBJECTIVES. WITHOUT FLEXIBILITY, THE PROGRAMS WILL REQUIRE YOU TO MAKE UNNECESSARILY LARGE PAYMENTS AS SURPLUS PRODUCTION IS ENCOURAGED, AND WILL FORCE ADDITIONAL SPENDING ON STORAGE AND EXPORT INCENTIVES.

FOR THESE REASONS, MR. CHAIRMAN, OUR INDUSTRY HAS WORKED CLOSELY WITH THE ASA, THE NATIONAL SUNFLOWER ASSOCIATION, THE CANOLA INDUSTRY, AND THE END USERS OF OUR PRODUCTS, THROUGH THE *OILSEED COUNCIL OF AMERICA*, TO DIFFUSE THE UNCERTAINTY THAT SURROUNDS THE NOTION OF PLANTING FLEXIBILITY AND TO REPLACE IGNORANCE WITH INFORMATION.

I HOPE THIS INFORMATION HAS BEEN HELPFUL. AND, I WANT TO ASSURE YOU THAT OUR INDUSTRY STANDS READY TO WORK WITH YOU TO FASHION A SOLUTION TO THE OILSEED DILEMMA.

THANK YOU.

APPENDIX

U.S. SOYBEAN PLANTS DISMANTLED (DM) OR CLOSED (C) THIS DECADE

AUGUSTA, GA		Switched to Peanuts
BELMOND, IA		DM
CAMERON, SC		DM
CHAMPAIGN, IL		C
CHATTANOOGA, TN	(1/2 of plant)	DM
CHICAGO, IL		DM
DECATUR, IL		DM
EAGLE GROVE, IA	(1 of 2 extraction plants)	DM
FORT DODGE, IA		DM
HARTSVILLE, SC		C
JACKSON, MS		C
LOGANSPORT, IN	(Partially dismantled)	C
LOUISVILLE, KY		C
MEMPHIS, TN		DM
OSCEOLA, AR		C
ROCKY MOUNTAIN, NC		DM
SAVAGE, MN		C
STUTTGART, AR		(?) (1 of 2 plants dismantled)
TIPTONVILLE, TN		????
VAN BUREN, AR		C
WASHINGTON, IA		DM

TOTAL 21 PLANTS

Senator **Pryor**. We thank you very much for your statement, a very strong statement.

Mr. Burritt, we appreciate you being here with us.

STATEMENT OF JOHN A. BURRITT, EXECUTIVE VICE PRESIDENT, NATIONAL SUN INDUSTRIES, INC., MINNEAPOLIS, MN

Mr. **Burritt**. Thank you, Mr. Chairman.

INTRODUCTION

Lockwood has covered many, many of the points. I will try to be as brief as possible.

Our plant in Enderlin, North Dakota, is the largest, we believe the largest multiseed crushing plant in the country. We crush primarily the sunflowers. We also crush soybeans and canola.

STARVING FOR OILSEEDS TO CRUSH

We are "on the fringe" of the U.S. oilseed industry. By this, I mean that we are rather far removed from the prime soybean belt in Illinois, Indiana, Iowa. We, our plant and our industry, our competing plants around us, we are literally starving for oilseeds to crush. Most of us are running it between 50 and 60 percent of capacity.

In addition to the Northern Plains region, I think I can generalize a little bit the Midsouth, the Central, the Southern Plains. These areas are on the fringe as well. The plants in these areas were very much on the front lines during the late sixties, seventies and early eighties. This is where we are going to get the plant closings and all the negative meaning that will come out of that.

TWO IMPORTANT TRENDS THAT ARE PLACING OUR INDUSTRY IN JEOPARDY

Of course, the two trends that have caused this, the decline in oilseed plantings, and I think we have said sunseed plantings have probably been hit the worst. We have gone from 5 million acres to an estimated 1.6 million this coming year. We are seeing a similar trend in soybean acreage, canola acreage, and so on and so forth, due to all the reasons that were discussed here.

INCREASE IN OILSEED PRODUCTION AND EXPORTS SUBSIDIES BY OUR MAJOR COMPETITORS, PRIMARILY BRAZIL, ARGENTINA, AND THE EUROPEAN COMMUNITY

I would like to remark just a little bit more about the increase in oilseed production and exports subsidies by our major competitors, primarily Brazil, Argentina, and the European Community. This expansion is parallel and filled the vacuum created by the declining oilseed plantings almost exactly. In other words, the acreage that we have dropped they have just picked up.

In 1989, the United States actually imported more vegetable oil than it exported for the first time. Unless there is some definite reversal in the policies and the trends, this will continue. We will be importing soybean meal, soybean oil, and many other things.

A COMMENT REGARDING DR. GARDNER'S STATEMENT

I would like to make a comment regarding Dr. Gardner's statement. I think Senator Conrad asked him about the European policy, just one small thing. But I think in the last 6 to 7 months, the Community has exported between 400,000 and 500,000 tons of canola oil, or rapeseed oil as they call it, to China, a new big growth market.

Now, that has a definite effect. That is probably *x* amount of soybean oil, and I cannot give you the exact amount but it could be 200,000 to 300,000 tons that either we would have exported to China, or that Brazil or Argentina. Those stocks that they are producing, whether it is sun, soy or canola, they are huge, and they are badly hurting us.

They are taking the surpluses into Northern Africa, into China, into Russia, and we are now experiencing quite a bit in Mexico and Caribbean markets, so that has really hurt us.

However, we have, they tell us, the 301 case against the Europeans. If we do not have the oilseed acreage in this country to take advantage of the retrenchment that they are supposed to go to, we will not be in any position to recapture some of these former markets.

I WOULD LIKE TO HIGHLIGHT THE EUROPEAN AND THE ARGENTINE SITUATION

So, from our own perspective and our company perspective, I would like to highlight the European and the Argentine situation, and we really have to look at these subsidies. As Lockwood says, our facilities are extremely efficient, we have the latest technology, our products are in great demand. I can only second his comment that we really have to support this industry, which has been one heck of a good industry for the United States over many years and, if present trends continue, we will have to close many more plants, with all of the resulting negatives that will come from that.

So, I think that would conclude my remarks, Mr. Chairman.

[The prepared statement of Mr. Burritt follows:]

TESTIMONY OF JOHN A. BURRITT

Executive Vice President, National Sun Industries, Inc.
Minneapolis, Minnesota

Board Member, National Sunflower Association
Executive Committee Member,
National Oilseed Processors Association

before the Subcommittee on
Agricultural Production and Price Stabilization,
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GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM JOHN BURRITT, WITH NATIONAL SUN INDUSTRIES, BASED IN MINNEAPOLIS, MINNESOTA. OUR COMPANY OPERATES THE LARGEST MULTI-SEED OILSEED PROCESSING PLANT IN THE UNITED STATES, LOCATED IN ENDERLIN, NORTH DAKOTA. THE PRIMARY OILSEED WE PROCESS IS SUNFLOWER, BUT WE ALSO CRUSH SOYBEANS AND CANOLA.

OUR OILSEED PROCESSING INDUSTRY HAS BEEN GOING THROUGH SEVERE ATTRITION OVER THE PAST FIVE YEARS. AS MR. MARINE HAS POINTED OUT, 22 SOYBEAN PLANTS HAVE CLOSED. TWO SUNFLOWER PLANTS HAVE FAILED, ONE OF WHICH IS NOW CRUSHING MOSTLY CANADIAN CANOLA. THE OTHER IS NATIONAL SUN, WHICH IS ECONOMICAL TODAY ONLY BECAUSE IT WAS PURCHASED OUT OF BANKRUPTCY FIVE YEARS AGO.

MY PLANT IS WHAT I WOULD CALL "ON THE FRINGE" OF THE U.S. OILSEED INDUSTRY. BY THIS I MEAN THAT WE ARE FAR FROM THE PRIME SOYBEAN BELT IN ILLINOIS AND INDIANA, WHERE FEEDSTOCKS WILL CONTINUE TO BE ABUNDANT FOR YEARS TO COME. WE ARE, IN FACT, LITERALLY STARVING FOR OILSEEDS TO CRUSH. OUR PLANT IS OPERATING AT ABOUT 62 PERCENT OF CAPACITY.

IN ADDITION TO THE NORTHERN PLAINS REGION, I WOULD INCLUDE AREAS OF THE MID-SOUTH AND CENTRAL AND SOUTHERN PLAINS AS "ON THE FRINGE" AS WELL. PLANTS IN THESE AREAS ARE VERY MUCH ON THE "FRONT LINES" OF DEVELOPMENTS THAT AFFECT THE COMPETITIVENESS OF OILSEEDS AS A DOMESTIC CROP, AND U.S. VEGETABLE OIL IN THE INTERNATIONAL MARKET. AND, IF CURRENT TRENDS CONTINUE, IT IS THESE "FRINGE" PLANTS THAT MAY BE FORCED TO CLOSE OR TURN TO OTHER CROPS.

THERE ARE TWO TRENDS THAT ARE PLACING OUR INDUSTRY IN JEOPARDY. FIRST, AND MOST IMPORTANT, IS THE DECLINE IN OILSEED PLANTINGS. SUNSEED PLANTINGS HAVE FALLEN FROM IN EXCESS OF FIVE MILLION ACRES TO AN ESTIMATED 1.6 MILLION ACRES IN 1990. SOYBEAN ACREAGE HAS FALLEN DRAMATICALLY, AND THE PLANTING OF CANOLA IS MINIMAL, ALL DUE TO THE MANDATES OF THE 1985 FARM PROGRAM.

THE PRIMARY REASON FOR THE DECLINE IN OILSEED ACREAGE IS THAT OILSEEDS CANNOT COMPETE WITH PROGRAM CROPS. FARMERS AND THEIR BANKERS HAVE BEEN FORCED TO SEEK THE SAFETY AND PROTECTION THAT THE PROGRAM OFFERS, AND OILSEED ACREAGE HAS DECLINED ACCORDINGLY.

THE SECOND TREND IS THE RAPID INCREASE IN OILSEED PRODUCTION AND EXPORTS BY MAJOR U.S. COMPETITORS, PRIMARILY BRAZIL, ARGENTINA, AND THE EUROPEAN COMMUNITY. IN MANY WAYS, THIS EXPANSION HAS PARALLELED AND FILLED THE

VACUUM CREATED BY DECLINING U.S. OILSEED PLANTINGS DURING THE 1980'S. IN 1989, THE U.S. ACTUALLY IMPORTED MORE VEGETABLE OIL THAN IT EXPORTED, FOR THE FIRST TIME. UNLESS REVERSED IN POLICIES UNDER THE 1990 FARM BILL, THE U.S. WILL CONTINUE TO GIVE UP MARKET SHARE AND RISK INCREASED IMPORTS OF FOREIGN VEGETABLE OILS.

IN DECEMBER, THE EUROPEAN COMMUNITY ACCEPTED THE RULING OF A GATT PANEL THAT IT IS ILLEGALLY SUBSIDIZING OILSEED PRODUCTION AND PROCESSING. THE EC IS DUE TO ANNOUNCE REFORMS IN ITS OILSEED PROGRAM SOMETIME THIS YEAR WHICH COULD SUBSTANTIALLY REDUCE THEIR OILSEED PRODUCTION AND EXPORTS. AS A RESULT, WE MAY WELL BE ON THE BRINK OF REGAINING COMPETITIVENESS IN LOST FOREIGN MARKETS. THE U.S. MUST HAVE DOMESTIC POLICIES IN PLACE THAT ALLOW US TO TAKE MAXIMUM ADVANTAGE OF SUCH OPPORTUNITIES.

MR. CHAIRMAN, OUR MANUFACTURING FACILITIES ARE EXTREMELY EFFICIENT, WITH THE LATEST TECHNOLOGY IN PLACE. OUR PRODUCTS, VEGETABLE OILS AND PROTEIN MEALS, ARE IN GREAT AND RISING DEMAND WORLDWIDE. OUR INDUSTRIES ARE OF VITAL IMPORTANCE TO OUR REGION. IN NORTH DAKOTA, SOUTH DAKOTA, AND MINNESOTA, SUNFLOWERS HAVE CONTRIBUTED BILLIONS OF DOLLARS TO THE REGIONAL ECONOMY OVER THE PAST TEN YEARS. I BELIEVE THAT OILSEEDS AND PRODUCTS, PRIMARILY SOYBEANS, ARE THE LARGEST SINGLE REVENUE-PRODUCING INDUSTRY IN MINNESOTA. BUT WE CANNOT CONTINUE TO OPERATE AND COMPETE WITHOUT AN ADEQUATE SUPPLY OF RAW MATERIALS.

THE STATED GOALS OF THE 1985 FARM BILL WERE TO PROTECT FARM INCOME WHILE ENSURING THAT THE CROPS PRODUCED COULD COMPETE IN THE GLOBAL MARKETPLACE. THESE OBJECTIVES HAVE LARGELY BEEN ATTAINED FOR PROGRAM CROPS. OUTSIDE OF THE PROGRAM, HOWEVER, OILSEEDS HAVE BORNE THE BRUNT AS OUR FOREIGN COMPETITORS HAVE SOUGHT OUT THOSE INDUSTRIES WHICH ARE NOT UNDER THE FARM PROGRAM "UMBRELLA."

THE OILSEED COUNCIL STUDY RELEASED YESTERDAY, STATED THE FOLLOWING, WHICH COULD SUMMARIZE MY STATEMENT:

> IN TERMS OF SOYBEANS, THE ANNUAL GROWTH IN WORLD PROTEIN MEAL CONSUMPTION IS EQUIVALENT TO 200 MILLION BUSHELS EVERY YEAR, YET THE UNITED STATES HAS CUT ITS OILSEED ACREAGE AND PRODUCTION AND SHARPLY REDUCED ITS SHARE OF WORLD MARKETS FOR THESE COMMODITIES, GIVING UP AN ADDITIONAL $1.5 BILLION IN ANNUAL EXPORT SALES. IF WE HAD MAINTAINED OUR 1981 MARKET SHARES FOR OILSEEDS AND PROTEIN MEAL, ANNUAL EXPORTS DURING THE PERIOD COVERED BY THE 1985 FARM BILL WOULD HAVE BEEN HIGHER BY 200 MILLION BUSHELS OF SOYBEANS, 2.4 MILLION TONS OF SOYBEAN MEAL, AND 1.2 BILLION POUNDS OF VEGETABLE OIL. THESE ADDITIONAL EXPORTS WOULD HAVE REQUIRED THAT ANOTHER 9 MILLION ACRES BE PLANTED TO SOYBEANS, SUNFLOWER, AND OTHER OILSEEDS IN EACH OF THE LAST THREE YEARS. AND THEY WOULD HAVE INCREASED OILSEED CRUSHINGS BY 8 PERCENT, PREVENTING THE CLOSING IN RECENT YEARS OF A NUMBER OF CRUSHING FACILITIES.

MR. CHAIRMAN, THERE IS SIMPLY NO REASON FOR CONTINUING OUR DISORGANIZED RETREAT FROM OILSEED PRODUCTION AND COMPETITIVENESS. THIS YEAR'S FARM BILL IS THE LAST AND BEST OPPORTUNITY FOR CONGRESS TO HELP US KEEP OUR INFRASTRUCTURE INTACT WHILE THE U.S. CAN RESTORE OILSEED ACREAGE AND EXPORTS. WE HOPE YOU WILL RECOGNIZE THIS OPPORTUNITY AND THAT THE COMMITTEE WILL TAKE STEPS TO PROVIDE REALISTIC PROVISIONS FOR OILSEED PRODUCTION IN THE 1990 FARM BILL.

Senator **Pryor**. Thank you very much, Mr. Burritt.

Both of you gentlemen seem extremely knowledgeable and have sort of a global perspective here, and I appreciate that. Have you had a chance to look at the American Soybean Association's proposal for the graduated equity loan, and, if so, would you give comments? I do not want you to do battle with these folks. You do business with them, I know, and I do not want to put you in a precarious situation, but what do you think of it?

Mr. **Marine**. No, we would have been disappointed if you had not asked us that question. Obviously, we have looked at it, it has some proposals that could work to get some flexibility and to encourage some additional acreage.

I guess the one reservation that we might have about that bill is not necessarily the proposal itself, but some of the ramifications that might come from it, and that is what has been talked about here today, possibly the cost and might at some point call for a reduction of soybean acreage.

Now, when we have soybean acreages going down and we need to get back our market share, I guess anything that would hold up the possibility that, for budget or other reasons, at some point we would put a limit on oilseed acreage, I guess that is the thing that we do not need. That is the only reservation that we would have about the graduated equity loan program.

Senator **Pryor**. Mr. Burritt, would you care to comment on that?

Mr. **Burritt**. I would simply second Lockwood's comments.

Senator **Pryor**. All right, then I will ask the second question. Mr. Marine, you discussed in your opening statement, I think, if I remember you correctly, talking about the healthy producer, in other words, the farmer, I guess, that is ultimately out there making some degree of net income so he can continue producing and staying on the farm. What is going to make that producer healthier? Would it be the graduated equity loan or a marketing loan?

Mr. **Marine**. Well, I am not sure that I can actually pick between those two. A healthy producer is one that has enough income to pay his bills and to have enough to send his kids to college and, hopefully, help bring them back into the business. That income can be a combination of both price and volume.

Now, obviously, many of our acreage support programs have been geared to price. In the case of oilseeds, we do not have the volume, so whatever program we develop, we are going to have to have a combination of both price and volume equals income, and we can do it under either of those programs and they have many of the same features, so I do not know that I would care to pick between them.

Senator **Pryor**. I see. Thank you.

Mr. Burritt, do you have any comments?

Mr. **Burritt**. No, sir, I would simply agree with Lockwood's comment.

Senator **Pryor**. Thank you.

All right, once again, in the global aspect, if you were in Brazil and Argentina and you were in the same business that you have respectably in this country, what sort of a signal would you be looking for in a 1990 farm bill in Argentina and Brazil to make you sort of curtail or begin curtailing the expansion of the soybean and oilseed industry there? What would you be looking for that we would do or not do?

Mr. **Burritt**. Well, I think if our competitors see that we are serious about arresting the decline, I think that they will almost immediately stop this rapid expansion, because they will realize that we are serious competitors, we are not going to give up the markets that are out there, and I do not think we have sent that signal for the last 5 years.

Again, I do not have the exact statistics here, but almost every acre that we have dropped—and we have probably dropped close to 20 million acres of oilseeds in total—they have picked up and thensome, and I think the big thing is that any specific program, we would say, hey, we are going to put a stake in the ground here, we are not going to continue to let the U.S. industry go down, it would cause them great consternation and I think they would stop this rapid rise in oilseed production. That is my rough response.

Senator **Pryor**. I know in 1985, when Senator Cochran and I finally were successful in putting a marketing loan for rice and cotton, I know almost overnight, almost overnight—and I think I can speak for Senator Cochran—we made a lot of new friends, we met a lot of people that we had no idea were out there where this message was going. And when I say friends, that is a pretty chilling effect, I think.

Mr. **Marine**. I might comment.

Senator **Pryor**. Yes, sir.

Mr. **Marine**. The signal that they would most like to see is the status quo, because, frankly, the programs we have had in the last 4 years for oilseeds have been one of the best things that the South Americans could have asked for, and a lot of those acres that have gone into oilseeds, particularly in Argentina, did not come out of pasture, they came out of corn and wheat. They let us produce the corn and wheat and store it, and they produced the oilseeds and sold it to the rest of the world.

Mr. **Burritt**. Much the same in Europe, Senator. That has been the huge expansion. They say, gee, the United States is not interested in protecting, supporting, whatever the word would be, the oilseed industry, it is a great opportunity for them and they have jumped into it.

They have new crushing plants. We have not had a new crushing plant in this country in 10 years. Nobody today would build a new crushing plant in the United States, yet there are new crushing plants right now being built in Argentina and Europe and we have none of that opportunity at present.

Senator **Pryor**. By the way, let me ask this, all of us—I was just telling Senator Lugar a few moments ago—and he wanted all of our witnesses to know that he had to go to the Foreign Relations Committee, Secretary Baker was going to be before the committee—we were talking about Eastern Europe and some of the potential that we might have in American agriculture in Eastern Europe. Are you seeing signs out there in American agriculture today of some potential? Are you seeing anything definite? Is it just hearsay? What are you sensing?

Mr. **Marine**. Well, we definitely are seeing real demand on the part of Eastern Europe for both oilseeds and high-protein meal and, to a lesser extent, soybean oil. Definitely, they have real demand and the only thing that will be their ability to pay for it, so we have to figure out a way to buy some things from them and trade some things with them. The demand in Eastern Europe is very real for oilseeds and oilseed products.

Senator PRYOR. One of our major poultry people in our State just 2 weeks ago, just out of the blue got an order, a major order from Romania, and not only an order but they paid cash for the poultry products. Now, with the McDonald's opening up in Moscow, the biggest one in the world, you saw the picture in the paper of the long lines, the Chicken McNuggets come from Nashville, Arkansas, and that makes us feel pretty good. So, we are beginning to see some expansions now.

One of these days—this is a different subject, and we were talking about all this worldwide trade—if we can now find out some way to sell at least one bag of Arkansas rice in Japan, I will appreciate any suggestions that you have. We have not been successful in doing that.

Mr. BURRITT. Senator, I would like to comment on demand overall. The oilseed study that Lockwood——

Senator PRYOR. Yes, I appreciate that study very much.

Mr. BURRITT [continuing]. Clearly identifies our products, i.e., oils and protein meals, as the fastest-growing demand item in the world of any of the major agricultural trade commodities. We are growing at a rate of between 4 to 6 percent per year worldwide. Our problem is we in this country are not sharing in that growth, but it is the largest growth area, these two products, the largest growth area in world trade and we are not getting any of it.

Senator PRYOR. This is fascinating and we are going to always be in your debt, both of you, for being with us this morning.

Mr. BURRITT. It is our pleasure.

Senator PRYOR. You are two fine witnesses and we will continue this over the next several weeks and we are going to do our very best to incorporate some of your thoughts into our thoughts and, hopefully, together we can work together.

I have several opening statements and other statements I will have placed in the record at the appropriate point for our members who could not come and some who wanted to elaborate on their statement.

Also, we will hold the record open for 10 days for any and all other questions we would like to submit to our very distinguished panelists ultimately in writing.

We thank you. The subcommittee will be adjourned.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 2:10 p.m., Thursday, March 1, 1990, in room SR-332, Russell Senate Office Building.]

[Material submitted for inclusion in the record follows:]

APPENDIX

U.S. Senate,
Washington, DC, February 5, 1990.

Honorable David Pryor,
Chairman, Subcommittee on Agricultural Production and Stabilization of Prices, Committee on Agriculture, Nutrition, and Forestry, 267 Russell Bldg.

Dear Chairman Pryor: I am submitting to you written testimony from the Louisiana Farm Bureau Federation on the 1990 farm bill. In particular, the Farm Bureau focuses its views and comments on soybean program provisions. Please include this written testimony from Louisiana Farm Bureau in the public record for your February 1, 1990 hearings on the soybean program.

Traditionally, soybeans are Louisiana's leading agricultural cash crop and represent the largest number of agricultural acres cultivated. For these reasons they are important in a significant way to the State's economy.

Louisiana Farm Bureau believes the soybean program must be changed if producers are to survive in the 1990's. Its testimony explains what type of program is needed to assist growers.

Your consideration of Louisiana Farm Bureau's views and inclusion of its testimony in the public hearing record would be most appreciated. Thank you for your attention and consideration.

Sincerely,

John Breaux,
United States Senator.

Enclosure.

Prepared Statement of Ronald Anderson, President, Louisiana Farm Bureau Federation, Ethel, LA

Mr. Chairman, and members of the subcommittee, my name is Ronnie Anderson. I serve as president of the Louisiana Farm Bureau Federation (LFBF). I am a dairy farmer from Ethel, Louisiana, where I also raise beef cattle, corn, soybeans, and milo. Thank you for the opportunity to present to the subcommittee the views of the Louisiana Farm Bureau Federation concerning proposals to be considered for incorporation in the 1990 farm bill.

It is the opinion of LFBF that the Food Security Act of 1985 has generally accomplished its three major objectives: stabilizing financially stressed farm economy, enhancing export position for U.S. farm products, and preventing buildup of surplus stocks.

It is also the consensus of LFBF that the direction of the new farm bill should contain provisions and goals similar to the present act for the majority of the commodity programs. However, the soybean program must be changed and improved if producers of this crop are to survive in the 1990's.

Soybeans are a major crop in Louisiana, with many farmers receiving all or a large portion of their income from soybean production. In 1988, there were approximately 2 million acres of soybeans harvested in Louisiana. This was an increase of 300,000 acres from 1987, and it was the first time since 1980 that soybean acreage increased. The increased plantings occurred as farmers responded to long-awaited favorable prices. Approximately 9,600 farmers produced 61 million bushels of soybeans with an estimated gross farm income value of $460.6 million which made soybeans the number one crop in Louisiana for 1988 in terms of gross farm income.

The importance of soybean production to the economy of Louisiana cannot be overemphasized. Even though soybeans are of major importance to Louisiana, as well as the United States, soybeans do not have an adequate farm program. In the Food Security Act of 1985, soybeans received very little attention and were awarded a simple price support loan. This program merely guaranteed our competitors a minimum world market price and did not provide an adequate income safety net for soybean farmers.

Because of both the overall economy and lack of a viable program for soybeans, many soybean farmers were either forced out of business or had to shift more acres into the production of program crops to survive. Without an effective program, U.S. soybean acres and world market share declined while our competitors' increased.

We believe soybeans should have an effective and viable program in the 1990 farm bill. We believe a program should be established that would provide an adequate and equitable income safety net relative to other commodities and that would also help the U.S. regain lost export market share.

It has been said that flexibility will be addressed in the 1990 farm bill. LFBF is opposed to the "planting flexibility" concept whereby nonprogram crops would be allowed to be planted on a portion of a program crop's permitted acres. In Louisiana, many soybean producers have very few, if any, program crop base acres. These farmers receive no support price benefits. Farm Bureau believes that all commodities are interrelated and any change in supply, demand, or price of one affects the others. Program crop policies should not be developed at the expense of nonprogram crops and other commodities. Therefore, we oppose the growing of soybeans or any other oilseed crop on any set-aside acreage, permitted acreage, land diversion acreage, plant-back acreage, conservation reserve acreage, or any other acreage reduction programs from other crops. We feel that flexibility will have a negative impact on Louisiana soybean farmers. Therefore, we recommend that flexibility not be allowed if soybeans are not adequately and equitably compensated for the loss in income that will occur with reduced prices from increased production. Soybean producers must be compensated for their loss in income due to reduced prices resulting from the increase acreage brought about by planting flexibility.

First and foremost we believe soybeans must receive an adequate and equitable program in relation to other program crops. While we support a target price and loan concept, and believe it would provide an adequate safety net and be truly equitable to other program crops, we also support flexible loans such as the marketing loan and graduated equity loan. We would prefer the protection provided by a marketing loan on all soybean production rather than a portion of the total production as proposed in the graduated equity loan because it does not in our opinion provide a truly equitable amount of income support in relation to the program crops. We would also prefer a national average price in place of the posted county price concept as proposed in the graduated equity loan. Most importantly, a soybean program must be in the 1990 farm bill, and it must provide an effective measure of income protection and be flexible enough that our competition cannot use it as a price floor.

In summary, LFBF has been a strong supporter of the 1985 farm bill and believes that it has been very effective in allowing most farmers to rebound from many of the economic difficulties that prevailed in the mideighties. However, soybean farmers do not receive adequate income protection and did suffer from continued economic difficulties.

For various reasons the profitability of soybeans has decreased dramatically in the 1980's. If soybean producers are to survive in the 1990's, we must receive an adequate income safety net that will keep us in business during the bad years and put soybeans on equal terms with other commodities. A goal of LFBF is to have an effective soybean program in the 1990 farm bill that will benefit soybean farmers.

We support enactment in 1990 of a 5-year, or longer, farm bill which will continue to move the United States in the general direction of a market-based, export-competitive agriculture, a direction established and begun by the Food Security Act of 1985.

PREPARATION FOR THE 1990 FARM BILL

Cotton

THURSDAY, MARCH 1, 1990

U.S. Senate,
Subcommittee on Agricultural Production and
Stabilization of Prices of the
Committee on Agriculture, Nutrition, and Forestry,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:10 p.m., in room SR-332, Russell Senate Office Building, Hon. David H. Pryor (chairman of the subcommittee) presiding.

Present or submitting a statement: Senators Pryor, Heflin, and Cochran.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator Pryor. The subcommittee will come to order.

Ladies and gentlemen, good afternoon. We appreciate the fine attendance this afternoon for this hearing relative to the cotton title of the agriculture bill of 1990.

I would like for the record to show that we are very sorry this afternoon that our friend and colleague Senator Lloyd Bentsen could not be here and introduce to the committee some of his own constituents that we will be able to meet and hear from later. Senator Bentsen is chairing a Finance Committee meeting at this time that has been moved from this morning until this afternoon.

I am supposed to be in that particular meeting under Senator Bentsen's chairmanship, but there is no more important section, I think, in the 1990 agriculture bill than this cotton title and I am very pleased to have the opportunity to preside this afternoon.

We are hopeful that for a period of at least about an hour that there might not be any rollcall votes on the Senate floor. Should there be rollcall votes, then I will have to leave and we will just have short recesses during that time interval, giving me the time to come back.

Senator Cochran is on his way. We have just completed a vote on the floor and he said that he would be here momentarily and asked that we go ahead and open our meeting this afternoon on the cotton title. We will, at this time, proceed to do so.

This is, of course, the first discussion on the 1990 farm bill relative to the commodity title, the issue concerning cotton. There are two basic issues being most often addressed in relationship to this title. One is flexibility; the other is the environment. More specifically, when discussing cotton, we hear a recurrent message here: by and large, we find there are a lot of people very satisfied out in the country and especially in our State of Arkansas with the Food Security Act of 1985. There is a reason we now find ourselves at this crossroads today—after years in which oversupply and noncompetitiveness wrecked American agriculture, we now find ourselves in an ever strengthening position. In cotton, exports, for example, have increased, stocks have fallen, and for fiscal year 1990 we expect to see the program net over $240 million for the Commodity Credit Corporation. It is little wonder why people are, in most situations, somewhat satisfied.

It is also some degree of a miracle sitting here 5 years at the same table where we—let us say—battered out the 1985 bill. It is amazing to me that farmers can really agree that something is working. And we think that today in the cotton title, especially, as we see a marketing loan there applied to that particular title that something now is beginning to work for American agriculture in the area of cotton.

As cotton has made a rebound, it has done so in a constantly changing world, and it is in this remarkable atmosphere that the calls for flexibility have now surfaced. Just what is flexibility, what is hoped to be accomplished by it, and what effect it may have on farm income remains to be seen. There are those who favor wide open flexibility, which is little more than decoupling, or delinking; there are those who feel we have enough flexibility in current law; and there are those of us who believe a cautious and balanced approach to flexibility is the most preferable route to travel, as it should be beneficial to consumers, the environment, and U.S. agriculture. With the numerous uncertainties related to flexibility—especially in regard to the current cotton program—one is reminded of the saying you might hear in Arkansas, and maybe even from time to time in Mississippi, "if it is not broke, do not fix it."

Granted, there is room for change. In a world market as dramatic as today's which carries such promise for opportunity, I think that we should assure ourselves enough flexibility so that we will always be poised and ready to meet future demand. We must continue our quest for ways to further improve our stewardship of the environment. I think we all know that. We must continue our efforts to provide a means for our farmers to remain on the farm and in production. All of this can be achieved with minor adjustments, which would be little more than fine-tuning of the 1985 act. Quite frankly, the administration's proposal before us today looks more like a major overhaul.

I look forward this afternoon to discovering the line of reasoning used by the administration in crafting this piece for the cotton title. I look equally forward to visiting with our guests this afternoon as we explore how much flexibility is too much, and how much could be helpful.

The cotton title is a special source of pride, not only for myself, but especially for Senator Cochran, my distinguished colleague from Mississippi, as we like to think the marketing loan has at least been helpful in constructing such a healthy program.

Senator Cochran and I have worked very closely, as neighbors, neighboring States, Mississippi and Arkansas, with very similar interests in our agriculture's fear. He has been a most willing and helpful and constructive partner during these years and I will look forward to working once again with Senator Cochran and other members of this subcommittee and the full committee of the Senate Agriculture Committee as we shape this very very crucial title.

This hearing, I think, should offer us a good forum this afternoon to look and examine this commodity to see where we are and where we want to go. Senator Cochran, we look forward to any statement that you might have.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator Cochran. Thank you very much, Mr. Chairman. I want to join you in welcoming our witnesses today as we examine the situation as it relates to the cotton industry and the outlook for the 1990 farm legislation. It is good to have the benefit of suggestions and observations that we get from those who are involved in this industry. It is a major part of our agricultural economy, and certainly in Mississippi it is a very major part of the economy. Nearly 10 percent of our farmers in Mississippi are involved in cotton production and depend on cotton primarily for their income.

In the last year production in our State totaled 1.6 million bales, and the estimated value of that production was about $576 million. We are going to hear from two Mississippians I know of who are here today, Mr. Chairman, John Sharp Howie who is a cotton farmer and from Yazoo County; Bruce Brumfield who is also a cotton producer from Mississippi. He is representing the Producer's Steering Committee of the National Cotton Council.

I think, Mr. Chairman, we can be very proud of the fact that the marketing loan program that you and I sponsored as a part of the 1985 farm bill, that Senator Heflin sponsored as a part of that bill began as an experiment, but has proven to be a very successful experiment over the life of the 1985 farm bill. The farm value of cotton in the 4 years prior to the 1985 act averaged about $3.5 billion compared to $4.5 billion during the last 3 years. Additionally, average cotton program expenditures account for only 10 percent of the total Government outlays on all commodity programs.

One thing to remember is that domestically, because of the competitive price of cotton, we have seen increase usage result. There is a growing demand for natural fibers, and in many cases, that demand has caused the consumer market to choose natural fibers over the man-made fibers. Competitively priced cotton has also allowed the industry to recapture a significant share of foreign mill demand. Cotton exports are expected to reach 7.7 million bales in the 1989-90 marketing year. This is the second highest volume of shipments since 1960.

Mr. Chairman, I think, that given the overwhelming success of the current cotton program, it seems to me that the continuation of this provision of the 1985 bill is indicated. And it is my hope that we can work together to improve it if we can, but refrain from making substantial modifications which might undermine the effectiveness of that program.

Senator **Pryor**. Senator Cochran, thank you. Alabama is one State that produces a very large amount of fine cotton. It is sold all over the world. They also have produced a very fine U.S. Senator who is an advocate for the cotton farmer and for the cotton program, and he is one who helped, very significantly, craft with all of this on this committee the 1985 program. And we are very proud to be joined this afternoon by our distinguished colleague member of the committee, Senator Heflin of Alabama.

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Thank you, Mr. Chairman. You are very kind with your words. I appreciate your leadership in having this hearing. The fact that you set this hearing, I think, has brought together the various elements in the cotton industry, and with a few exceptions they have reached an agreement relative to what they think the 1990 farm bill should contain. I think it is remarkable we have some of the other commodities where the groups do not get together and that they have knock out, drag out fights, so I think the unity that exits in the cotton industry, not to say that everything is agreed on, there are differences, but never the less they have gone a long way.

I believe that the 1985 farm bill, from a viewpoint of its structure and its basic principles, worked well. I think there are some fine-tuning that should be done to it. We have seen now over a number of years, the cost of production substantially increase in cotton as well other commodities, and we have seen really the concept of a target price which was in effect designed around production costs that target price have decreased.

It is my feeling that we ought to look at a formula that would allow for an escalator in regards to increased cost of production in the future and in the outyears of the cotton program. I think that marketing loan has worked well. However, it has not been exercised on the occasions when it should have been, and I think that the farm bill ought to have some mandatory directions as to when the marketed loan will operate and this would be more mandatory than discretionary, as it has been in the past.

The other aspects of the cotton legislation that we will look at, you have to look at what the future of Gramm-Rudman cuts will be. They have cut loan programs when really it did not involve any money and those were really injurious to the farmer by cutting the loan rates. And I think it also ought to look at the fact that it cut target prices when there was a situation developing where cost of production was increasing.

The other issue that we have to look at in regard to an overall farm bill and how cotton relates to it, and that of course is going to be a food safety issue that will arise. I think we have to be reasonable about all of these matters. Then there is an issue that has some affect and that is on the crop insurance, and since the Secretary has come out with abolishing crop insurance

And then there is the overall issue pertaining to what may be done in Geneva relative to the section 22 to get negotiations and all of this goes on to be carefully reviewed as we move forward and prepare a farm bill for 1990. The basic principles of the 1985 farm bill worked well in my judgment and those basic principles ought to be retained with some refining and some improvement. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Heflin.

We will enter into the hearing record without objection, the prepared statement of Senator Bond.

[The prepared statement of Senator Bond follows:]

PREPARED STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Mr. Chairman, I commend you for scheduling this hearing and I look forward to hearing this excellent group of witnesses. Cotton exports remain a bright spot as about half of U.S. cotton production is being exported. In the bootheel of Missouri cotton remains an important crop. I held farm bill meetings in the bootheel last year and others throughout the State again last month, and farmers seem to like the normal crop acres concept. I'll be interested in hearing how the cotton producer and industry organizations feel they will fare under the administration's proposals. How would prices and production be impacted? What are the implications of modifying the loan rate formula and how are payment limitations impacted?

The cotton industry has fared fairly well under the Food Security Act of 1985 and any recommendations for 1990 legislation must meet the standards set by the 1985 farm bill. We must ensure adequate supplies of U.S. cotton at competitive prices to service domestic and export demand.

Mr. Chairman, thank you for scheduling this afternoon's hearing and I look forward to hearing from our distinguished witnesses.

Senator PRYOR. And now we will call on our first witness. We will call on Dr. Bruce Gardner. Bruce is certainly no stranger. Dr. Gardner, I believe, you can sit anywhere you want to. I know that you have a very—I do not want to say a very lengthy statement—but I would call it inclusive. So Dr. Gardner, if I may make this suggestion, I am going to suggest this to all of our witnesses this afternoon. We have several panels. I am going to suggest that if you could just summarize the key points of your statement, and then we will open up for some questions. Thank you, sir. I appreciate your being here.

STATEMENT OF BRUCE L. GARDNER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Dr. GARDNER. Thank you, Mr. Chairman, Mr. Cochran.

Senator PRYOR. We will put your full statement in the record at this point.

Dr. GARDNER. Thank you. I would just like to briefly present the highlights of the written testimony, starting with what seem to be the most important facts to keep in mind when we are developing legislation on cotton.

U.S. COTTON IN THE WORLD MARKET

The first is, the market for U.S. cotton is a global market. We need to export about half of our production every year.

Second, cotton has been very well marketed as a textile fiber. Its reputation for quality, style and comfort has led to expanding demand in the 1980's and we expect demand to continue strong.

Third, the demand for cotton is competitive. With substitute fibers and available and non-U.S. sources of cotton available to mills around the world, our cotton has to be attractive in both quality and price.

And fourth, U.S. cotton production is competitive with that in other countries. We have been maintaining our export market share with quite minimal governmental promotion of exports.

OUR 1990 FARM BILL PROPOSALS

Now turning to our 1990 farm bill proposals, the changes we propose are intended to make sure we maintain the competitiveness of U.S. cotton to permit both our farmers and our market to be flexible in response to market signals and to provide a framework of support for the industry that will be both fair and consistent across commodities and the economy as a whole.

FOUR MAIN ASPECTS OF OUR PROPOSAL

I will outline very briefly four main aspects of our proposal: acreage flexibility, the acreage reduction programs, CCC loans and storage, and the payment yields and bases. Our flexibility proposal that is outlined in the so-called "green book" has raised questions, but I believe it provides the best approach to solving the problems that have arisen under current programs.

NOW WHAT PROBLEMS ARE THEY?

Now what problems are they? What problem is to be solved? It is that current law causes the farmer to make too many acreage allocation decisions based on target prices and program provisions, rather than market conditions. This is true even of the 0/25 program, for example, where soybeans could be planted on corn or cotton base, say. The substitution is permitted, but the farmer gives up the target price on cotton in return for the market price of soybeans. So we are not making a comparison on a market condition basis.

Our normal crop acreage, our NCA concept, permits substitution among program crops based on market conditions. Now some have said that our NCA proposal amounts to a so-called "decoupling" proposal. This is not true and it is so clearly not true that I do not understand why people cannot seem to get this point straight. Decoupling means that a producer's deficiency payments are fixed; that is, the payments do not change no matter what the producer does.

But look at what happens when a producer makes some adjustments that might be attractive under our proposal. For example, consider planting on the ACR land, that is, the land that is idle under the annual acreage reduction program. The producer gives up an acre of payments for every acre planted on the ACR acreage. There is flexibility here, but this is not decoupled. The producer's payments will fall.

As another example, suppose a producer plants a nonprogram crop on NCA acres, for example, potatoes or dry beans or harvests a hay crop, the producer then not only gives up deficiency payments on the potato or other nonprogram crop acres, but also loses base acres and NCA for future years. So this is very far from a decoupled program.

Overall we believe we have a mechanism that will permit the appropriate substitution among program crops for economic efficiency without jeopardizing the nonprogram crops or converting the program into a kind of welfare-like decoupled payments.

ACREAGE REDUCTION PROGRAMS

Now let me turn briefly to the acreage reduction programs. These are less rigid under our proposal because of our flexibility provision, but the Secretary would still have authority to impose a specific crop-based acreage reduction program as we do now. And in fact, this amounts to pulling a commodity out of the NCA, and the Secretary would have authority to do this if conditions of oversupply should develop.

LOAN PROGRAM

Even more briefly let me turn to the loan program. Our proposal here is to make cotton comparable to the grains, except that the marketing loan will still be maintained for cotton. And finally, payment yields are proposed to be continued as under current law and the payment basis would be standardized across commodities.

That concludes what I would like to say as opening remarks and I would be glad to respond to any questions.

[The prepared statement and charts of Dr. Gardner follow:]

STATEMENT OF
BRUCE GARDNER
ASSISTANT SECRETARY FOR ECONOMICS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE AGRICULTURE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
MARCH 1, 1990

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to discuss cotton and the 1990 Farm Bill. I will review the performance of the U.S. cotton market under the Food Security Act of 1985 (the 1985 Act), identify continuing policy issues, and describe the Administration's proposals for the 1990 Act.

U.S. Cotton in the World Market

Cotton accounts for about 50 percent of total world fiber production, making it the world's most important textile fiber. The United States produces about 20 percent of the world's cotton supply and consumes 10 percent. This means about half of U.S. cotton production is exported to foreign textile mills. Consequently, the health of the U.S. cotton industry is closely linked to the world economy and global textile consumption and trade.

The Census of Agriculture indicates that about 42,000 U.S. farms harvested cotton in 1987. Upland cotton, the type most commonly grown throughout the world, accounts for about 95 percent of the U.S. crop. The other 5 percent is extra-long staple (ELS) cotton which is grown mostly in southwest Texas, New Mexico, Arizona, and California.

Much of the growth in world and U.S. cotton trade in the 1960's and 1970's was associated with the development of textile industries in the Pacific Rim countries of Japan, Taiwan, Hong Kong, and South Korea. These cotton-importing countries, with their low labor costs, gained a competitive advantage in the manufacture of labor-intensive textile products. However, textile production costs have risen rapidly in these countries during the 1980's, and another group of textile exporters has emerged. These exporters, including China, Brazil, Pakistan, and India, now compete for global textile markets and all produce raw cotton in substantial quantities. Since the early 1970's, world cotton trade has grown at only three-fourths the rate of world production, indicating a growing share of world production is now milled within producing countries.

Even though world cotton production and trade have increased, cotton's share of world fibers fell from 55 to 50 percent during the last two decades. Cotton has lost market share to manmade fibers, such as polyester (noncellulosic fiber) and rayon and acetate (cellulosic fibers). However, in the United States, natural fibers have enjoyed increased popularity during the late-1980's and cotton's market share has risen.

The structure of the world cotton market that I have just described suggests three facts to consider in implementing cotton farm programs. First, American cotton farmers are dependent on exports in order to maintain their current production base. Second, many emerging world textile exporters produce their own cotton. Those textile exporters that import raw cotton require competitively priced cotton, if they are to continue as textile exporters and as a future market for U.S. cotton. Third, cotton has many close substitutes in textile production. Cotton must be attractive in both fiber quality and price if use is to expand here and abroad. The three facts together indicate that the foreign market for U.S. cotton is highly responsive to the price we charge.

Cotton Under the 1985 Act

During the mid 1980's, as production rebounded from the 1983 drought, cotton stocks began to build and market prices settled near the support level. The loan rate served as a price umbrella for our competitors and reduced the demand for U.S. cotton. An objective of the Food Security Act of 1985 was to make U.S. cotton competitive in the world market.

The 1985 Act retained the same loan rate formula for upland cotton as used in the 1981 Act (a percentage of past market prices), and added a provision that loan rate could not be reduced by more than 5 percent annually, nor below a minimum of 50 cents a pound. The key new concept introduced in 1985 was the marketing loan program. Producers could repay upland cotton loans at the prevailing world price--known as the adjusted world price or AWP--whenever the world price was below the loan rate. The Act also provided that a participating farmer could forego the loan and still receive the difference between the loan rate and the AWP, the so-called loan deficiency payment rate. In addition, the upland cotton target price was allowed to decline gradually, from 81 cents a pound in 1986/87 to 72.9 cents in 1990/91.

The 1986 crop was the first under the 1985 Act. The combination of the new program, large foreign stocks, and U.S. stocks of upland cotton in excess of 9 million bales initially drove market prices well below loan rates. The AWP plunged to 22 cents a pound. The price drop sparked demand and, compared with a year earlier, cotton exports more than tripled and U.S. mill use rose nearly a fifth. By the season's end, prices were well above the loan rate and carryover stocks were nearly halved. However, the deficiency payment rate at the maximum level, marketing loan payments, inventory protection payments, and first handler certificates pushed upland cotton program costs to over $2 billion during FY 1986 and nearly $2 billion during FY 1987.

Since the 1986/87 season, the effect of the marketing loan on the competitiveness of U.S. cotton in world markets has remained an issue. Following the 1986/87 season, exports declined and stocks rose for two successive years. By the start of 1989/90, U.S. upland cotton stocks had reached 7 million bales. While U.S. stocks were rising, foreign cotton stocks fell during both years. During this period, U.S. cotton prices on the world market rose above competitors' prices. The objective of the marketing loan--to have cotton pledged as collateral for CCC loans released to the market at a competitive price--was not being achieved. The apparent failure of the marketing loan set in motion a series of industry proposals and USDA adjustments in the upland cotton marketing loan program.

At the start of the 1988/89 season, USDA made four major changes in the program. First, the transportation component of the AWP formula was changed to more closely reflect actual transportation costs. This change increased the transportation differential that is subtracted from the world price in order to adjust the world price to average U.S. location. Consequently, this change reduced the AWP. Second, loan repayments were permitted at the same premium and discount schedule in effect when the cotton was placed under loan. At the time this change was made, current year loan differences from the base quality were being used for certificate redemptions, and these differences were narrower than those in effect when the loan was taken out. Using larger differences effectively lowered the AWP for those cotton types below the base grade. Third, the coarse count adjustment in the AWP formula was modified to make coarse count cottons more competitive. Fourth, CCC agreed to pay enough of the interest and warehouse charges on outstanding loans to encourage repayment of loans at the AWP. Other technical changes were also made in the AWP formula.

Despite these changes, U.S. upland cotton continued to be priced above competitors' cotton. An important source of the higher U.S. price has been the "equity" payment. This payment is a premium above the AWP that producers demand and receive when they sell the right to the cotton they have under loan. The purchaser of the equity, typically a merchant, can retain the cotton under loan until maturity but must repay the loan and cannot forfeit the cotton to the CCC. The equity payment is now several cents a pound, but exceeded 20 cents a pound at times during 1987/88.

The cotton program encourages storage, so the buyer must bid the cotton out from under loan and onto the market by paying the equity. This means that while a loan may be repaid at the AWP, a cotton buyer must pay the AWP plus the equity to obtain the cotton. The features of the cotton program that have encouraged storage in the past include: the required 18-month loan period; the minimum 50-cent loan rate; the lack of storage costs borne by the producer until the loan is redeemed; forgiveness of interest on the 1986 crop and on later crops with certificate exchanges; and the avoidance of storage and interest charges if the cotton under loan is forfeited to the government.

In October 1989, the Department once again made changes in the marketing loan program to improve the competitiveness of U.S. cotton. In order to reduce the incentives for storing cotton for 18 months, producers are now required to pay storage and interest charges for the loan extension period on cash loan repayments. Producers must also pay storage charges for the loan extension period and a $1.00 per bale handling charge on forfeited cotton. In addition, the AWP formula was changed. When the AWP is within 15 percent of the loan rate and U.S. cotton prices in Northern Europe exceed the five lowest priced competitors' cotton, the AWP may now be reduced by up to the amount that the U.S. price exceeds foreign prices.

We have not had an opportunity to test these most recent changes because the marketing loan program has not been in effect this season. Low foreign cotton stocks, reduced foreign production, a 25 percent acreage reduction program in the United States, and record high world mill use have kept U.S. cotton prices well above the loan rate. We now expect U.S. cotton exports this season to reach the highest level in this decade. The strong demand for U.S. cotton and short foreign supplies have eliminated the disparity between U.S. and foreign cotton prices. After averaging 3 cents a pound above competitors' prices in Northern Europe, as measured by the Outlook "A" Index, during 1987/88 and 1988/89, U.S. prices have been about the same as the "A" Index over the past three months.

The past competitiveness problems have caused widespread dissatisfaction with the loan provisions of the upland cotton program under the 1985 Act. In addition, the program is unduly complex and suffers from internal inconsistencies. For example, the program's incentives to store are at cross purposes with the objective of marketing cotton competitively.

Upland Cotton 1990 Farm Bill Proposal

The 1990 Farm Bill provides an opportunity to improve upon the patchwork remedies that were undertaken during the past three years. We now have the chance to develop a program that will truly allow U.S. cotton to compete and at the same time be less difficult and costly to administer. We propose revisions to determination of the loan rate and base acreage that would be considered as part of a package of program changes that would meet the goals of the President's budget. We will work with the Congress to fashion a cotton program consistent with the need to achieve the savings required to reduce the deficit.

Loan rate. The same successful formula that is being used for grains should be used for upland cotton. The loan rate should be set at 75-85 percent of past market prices. The current price series used to compute the upland cotton loan rate could continue to be used. The basic loan rate would be the smaller of 1) 75-85 percent of the U.S. average spot market price for the previous 5 years, excluding the high and low prices or 2) 80-90 percent of the average of the 5 lowest-priced growths quoted in Northern Europe for the 15-week period beginning July 1 for the year for which the loan level is announced (including the current downward adjustment to reflect the difference between U.S. and Northern Europe prices).

The basic loan rate could not be reduced by more than 5 percent from the preceding year's level. However, the Secretary would have authority to reduce the loan rate by the amount necessary to maintain domestic and export markets but not more than 20 percent in any year.

The marketing loan program would continue. Producers would retain the right to repay loans at the adjusted world price when the world price was below the loan rate.

These changes would make cotton consistent with other income supported commodities, eliminate the minimum loan rate, reduce the incentive to store which contravenes the objective of the marketing loan, and establish the loan rate as a safety net set below average market prices.

Loan period. Current law provides for an initial 10-month loan period followed by an 8-month extension which must be offered when market prices are below certain levels. We propose continuing the initial 10-month loan period and permitting an additional 8-month extension at the discretion of the Secretary, if market conditions warrant. This loan program revision would bring treatment of cotton into line with other program crops.

Deficiency payments. Deficiency payments would be based on crop year prices received by farmers. Advance payments would continue, and there would be a payment based on the difference between the target price and the higher of the 5-month average farm price or the basic loan rate. There would be final payment, made at the 5-month point, based on the difference between the expected season-average farm price and the basic loan rate (analogous to the so-called Findley payment). The expected season-average price would be determined by using the actual prices for the first 5 months and the historical relationship between these first 5-month prices and prices over the remaining 7 months.

These changes would simplify and make consistent the calculation of upland cotton deficiency payments with payments for grains.

Acreage reduction program. Upland cotton would be part of the Administration's broad flexibility proposal described in our "green book." Upland cotton base acreage would be part of the farm's Normal Crop Acreage (NCA), and a participating producer could raise any NCA crop (wheat, rice, feed grains, upland cotton, ELS cotton, soybeans, sunflowers, and rapeseed, including canola) as well as conserving crops (not harvested) on upland cotton base acres and still receive upland cotton deficiency payments. Likewise, cotton could be grown on other NCA crop base acreages and the producer would receive deficiency payments for those crops. A producer who grew cotton on wheat base, for example, would do so based on the market price of cotton compared with wheat. The only cotton program benefit to a producer who expanded production beyond the farm's cotton payment base would be the loan program.

Under acreage reduction programs the producer would be required to idle a percentage, not to exceed 25 percent, of the upland cotton acreage base. However, the producer could grow upland cotton and conserving, industrial, and experimental crops on the acreage to be idled (ACR). For each acre of upland cotton planted and harvested on ACR the producer would forego an acre of deficiency payments. For each acre of conserving, industrial, and experimental crops planted and harvested, the producer would forego a dollar value of deficiency payments determined by prorating across program crops. The acreage reduction program should accomplish the goal of a carryover stock-to-use ratio of 30 percent.

This proposal would result in farmers basing planting decisions on relative market prices, not on target prices. Producers woulo be free to seek their best income opportunity among NCA crops while retaining target price protection. However, this program is not one of "decoupled" payments. A producer's payments under our proposal do vary with the producer's output decisions. Payments must be given up to plant on idled acres, and both payments and base acreage for future payments must be given up if a producer plants non-program crops or even harvests conserving crops for hay on NCA crop base.

Target price and program payment yields. We propose to work with the Congress to develop a cotton program that serves both growers' needs and deficit reduction. Target price or program yield changes may be required. However, we believe that program payment yields should be set no higher than the 1990 program yields, which are the average of the 1981-1985 farm program payment yields, excluding the high and the low years.

Base acreage. A farm's base acreage would be the average of the acreage planted or considered planted to upland cotton during the 5 years ending with the year that is 2 years prior to the year for which the base is being determined. Zero would be used for each year when planted and considered planted acreage is not established for the farm. However, the base formula should be phased in during the 1990's in order to avoid having the shift to the new formula cause base reductions for producers who now have zeros excluded from their base determination. Acreage considered planted to upland cotton for a program participant would include acreage planted to any NCA crops planted on upland cotton base and the prorated share of unharvested conserving crops. Thus, a participating producer may plant more cotton than the farm's cotton payment acres, but the producer cannot build cotton base and still be a participant in the program.

These changes would provide USDA the needed time to compute bases each year and inform farmers in a timely fashion. Including zero planted and considered planted acreage would eliminate the possibility for a farmer who has never grown cotton to build a base in two years, as is now the case.

Payment Limits. Under current law, deficiency payments are subject to a limit of $50,000 per person, and deficiency payments plus marketing loan and loan deficiency payments are subject to $250,000 per person. Under our loan rate and deficiency payment rate proposals, the deficiency payment based on the 5-month price would be subject to the $50,000 limit per person, and the payment based on the difference between the basic loan rate and the expected season-average price would be subject to the combined $250,000 limit per person.

CCC Resale Price. The CCC currently cannot sell upland cotton at less than 115 percent of the loan rate in effect, or the loan repayment rate, if applicable, plus carrying charges. We propose establishing the CCC resale price of acquired program crops, including upland cotton, at 110 percent of the loan rate in effect. This proposal would standardize CCC resale prices across commodities and help prevent CCC from acquiring burdensome surpluses that overhang markets for sustained periods.

ELS Cotton 1990 Farm Bill Proposal

ELS cotton has experienced rapid growth in the 1980's. Plantings have increased five-fold, from 73,000 acres in 1980 to 374,000 in 1989. Farm prices of ELS cotton averaged a record high $1.18 a pound during 1988/89. The emergence of ELS as a new marketing opportunity for American farmers has been virtually solely attributable to growth in exports. In the early 1980's, annual exports were as low as 12,000 bales; this season, we expect ELS cotton exports to be a record high 475,000 bales.

Our proposals for the ELS cotton program parallel those for upland cotton. The current ELS loan rate is 85 percent of past farm prices and the deficiency payment rate is based on the average farm price during the first 8 months of the marketing year. We propose setting the ELS loan rate at 75-85 percent of the average price received by farmers during the previous 5 years, excluding the high and low years. The loan rate could be reduced at most 5 percent from the preceding year's level, and the Secretary could reduce the loan rate up to 20 percent to maintain domestic and export markets. The deficiency payment rate would be based on average farm prices during the first 5 months of the marketing year and on the season-average price, as described for upland cotton.

The currently legislated target price for ELS cotton is 120 percent of the loan level, except for the 1988 and 1989 crops for which it is 118.3 percent. Under our ELS cotton loan rate proposal, the target price, expressed as a percent of the loan rate, would have to be 120-136 percent of the basic ELS loan level in order to maintain the same nominal target prices determined under current law. Therefore, we propose establishing the ELS target price formula as a percentage range of our proposed loan rate formula. However, the percentage range would be based on any changes in target prices that might be made for upland cotton. Payment limits would apply as described for upland cotton.

Acreage reduction programs and the NCA flexibility proposal would apply to ELS cotton the same as for upland cotton. ELS cotton would be an NCA crop.

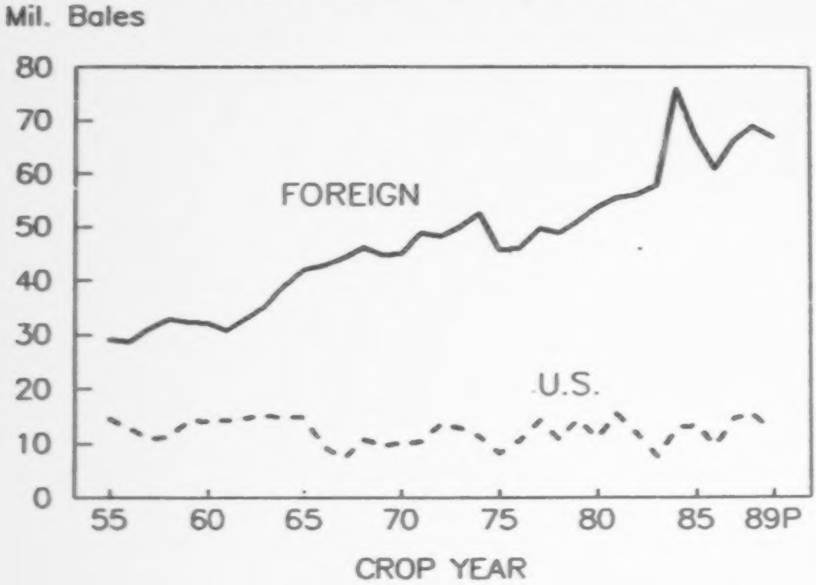
Acreage reduction programs would be limited to a maximum level of 25 percent and would be implemented to achieve a carryover stocks-to-use ratio of 40 percent, to the extent practicable. ELS acreage bases are now computed using a 3-year average of planted acreage, and bases are lagged one year as is being proposed for upland cotton. For ELS acreage bases, we propose using the same 5-year average of planted and considered planted acreage that we are proposing for upland cotton and other crops. However, this formula should be phased in during the 1990's in order to avoid having the shift to the new formula cause base reductions for current ELS producers.

The minimum sales price for CCC-owned ELS cotton is the current market price. We propose continuing this provision.

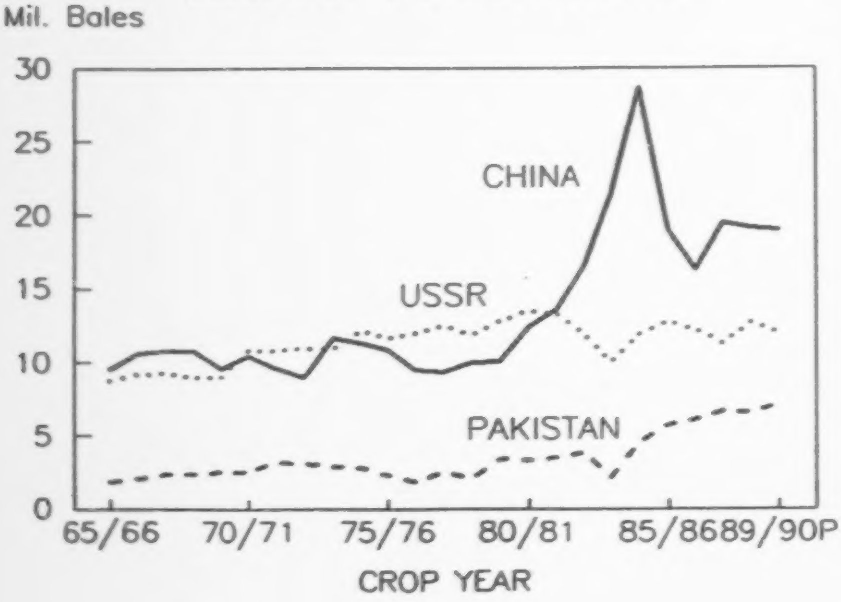
In conclusion, the U.S. cotton market is enjoying close supply and demand balance and higher prices this season. However, experience tells us that conditions can quickly turn. The U.S. cotton base, if fully utilized, could produce cotton in excess of this season's high level of total use. We would like to see the American cotton farmer grow as much as the market will take, and we would like to see the market take as much as the American cotton farmer can grow. That will require two things: farmers must be free to plant in response to market prices and U.S. cotton must be fully price competitive in the world market. Our proposed changes would accomplish these objectives.

That concludes my statement. I will do my best to answer any questions you may have.

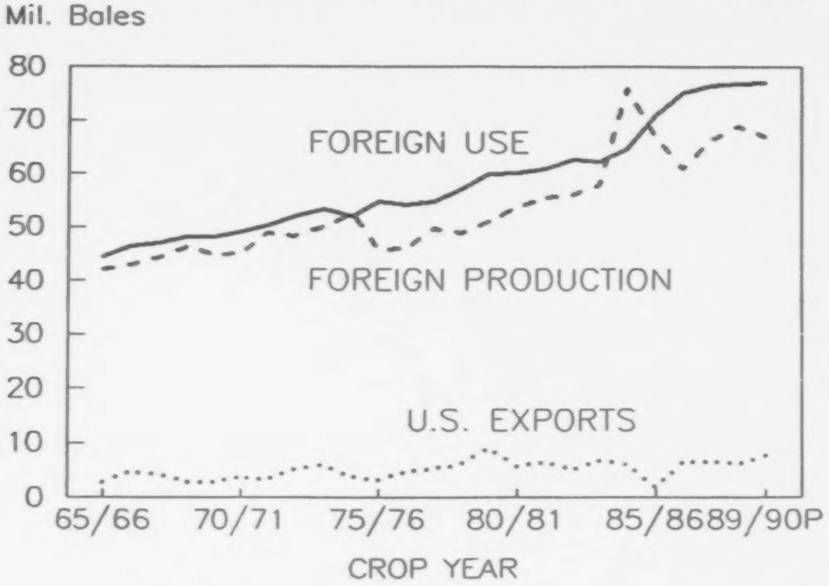
COTTON PRODUCTION
U.S. AND FOREIGN



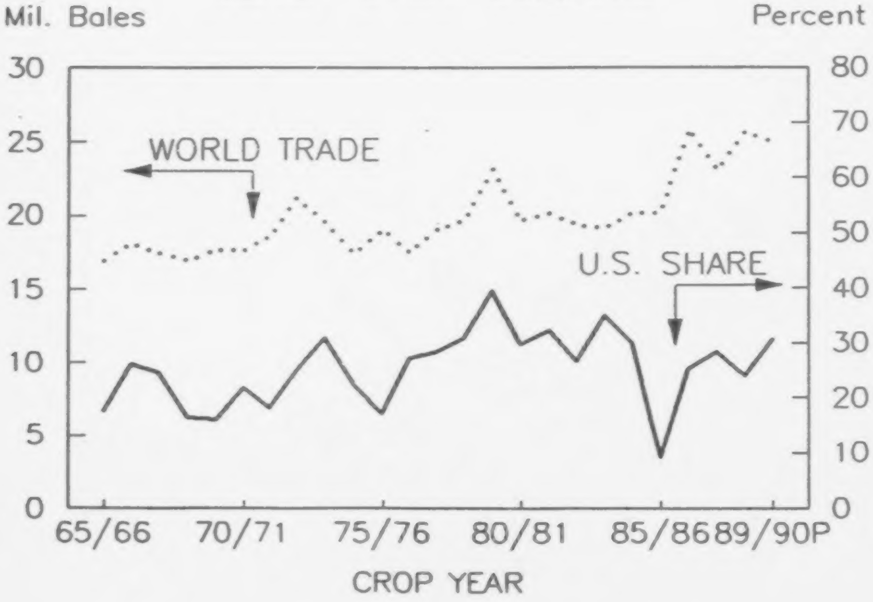
FOREIGN COTTON PRODUCTION
MAJOR PRODUCERS



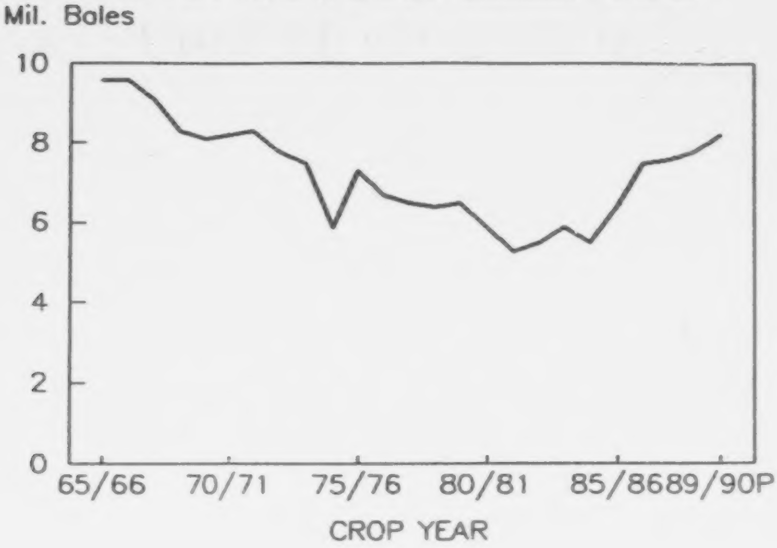
FOREIGN COTTON PRODUCTION, USE, AND TRADE



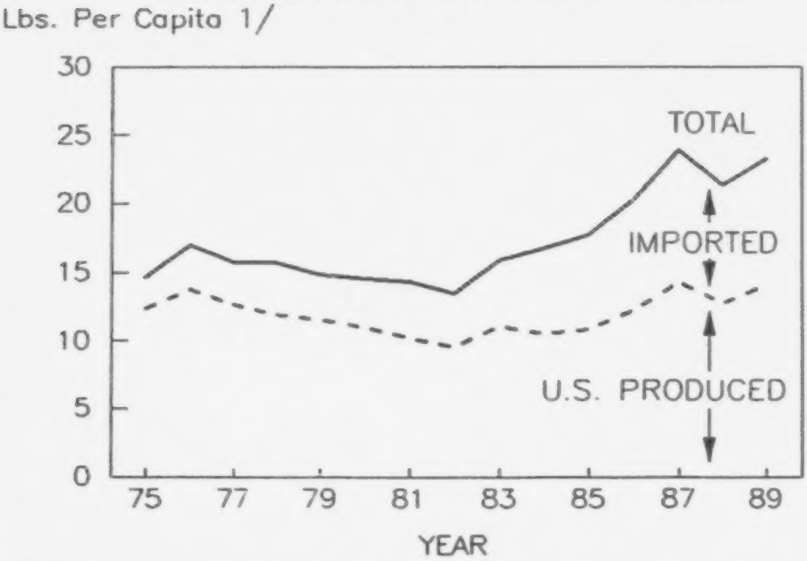
WORLD COTTON TRADE AND U.S. SHARE



U.S. COTTON MILL USE

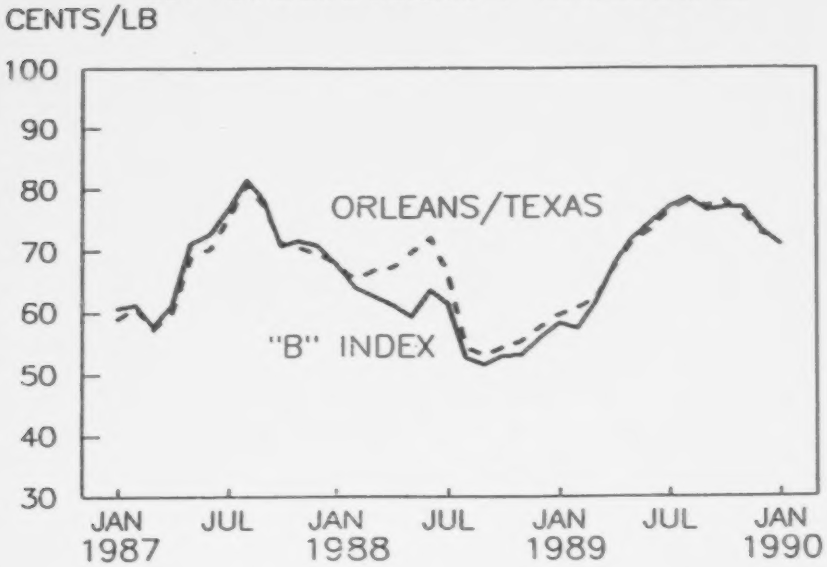


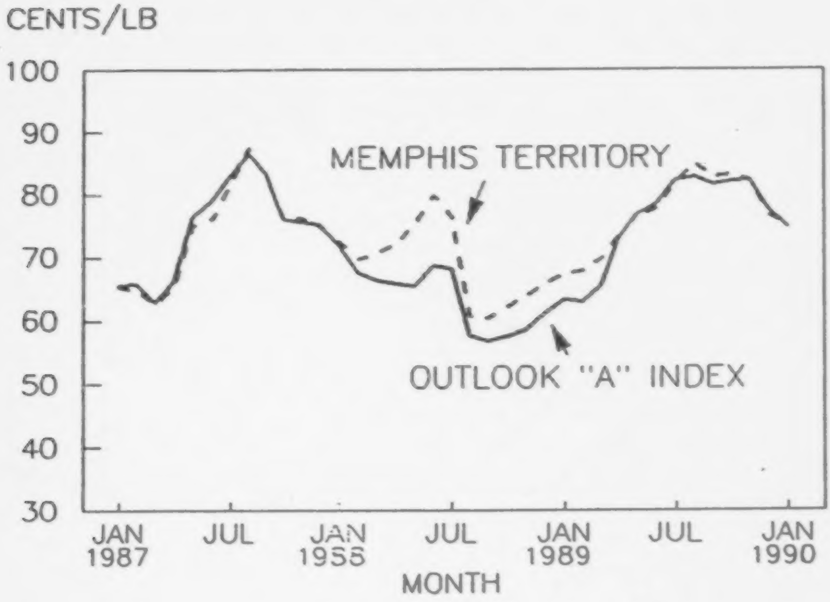
DOMESTIC COTTON USE



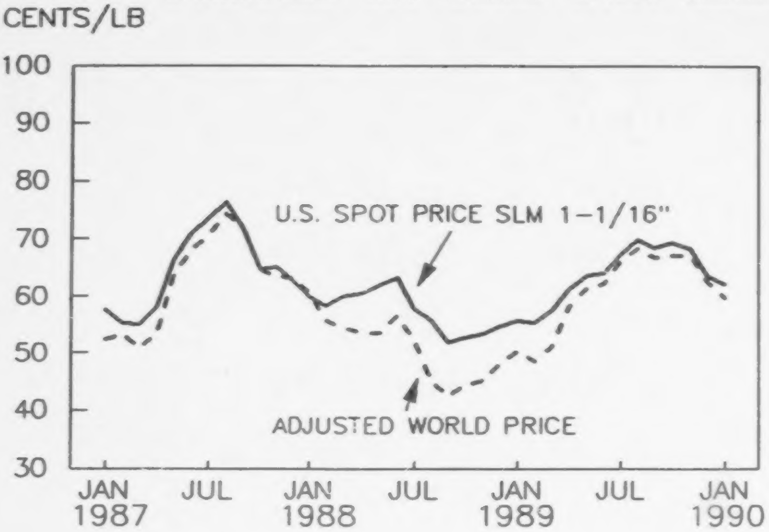
1/ Raw cotton equivalent of domestic cotton textile use.

U.S. AND WORLD COTTON PRICES IN NORTHERN EUROPE

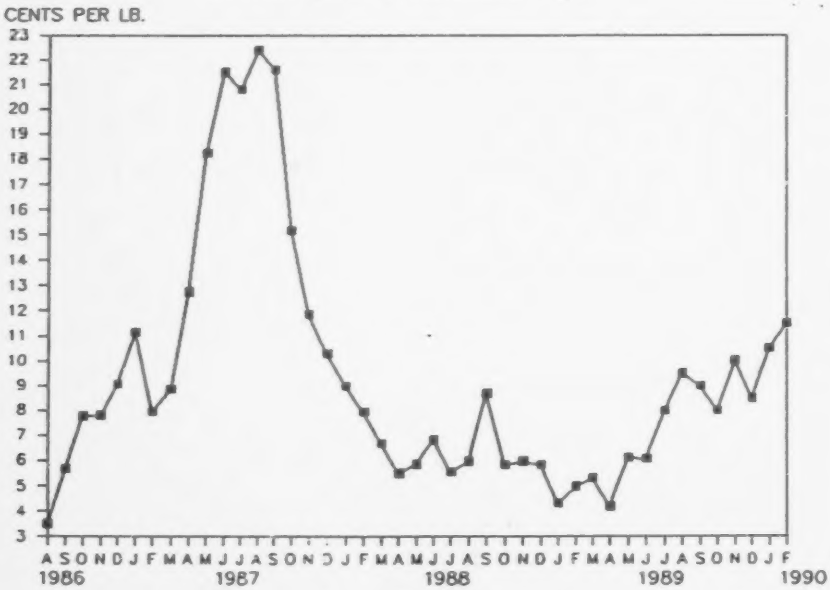




COTTON PRICES IN THE U.S. MARKET



COTTON EQUITY PAYMENTS 1/



1/ Unofficial tabulation from weekly Market News Report

U.S. cotton supply and use, 1980/81-1989/90

Crop year	Area: Planted	Area: Harvested	Yield	Supply: Beginning stocks 1/	Supply: Production 2/	Supply: Imports	Supply: Total	Disappearance: Mill use 3/	Disappearance: Exports	Disappearance: Total	Unaccounted 4/	Ending stocks	Farm price 5/
	--1,000 acres--		Lbs./ acre	-----------------------------1,000 480-lb. bales								----	Cents/ lb.
All kinds:													
1980	14,534	13,215	404	3,000	11,122	27	14,149	5,891	5,926	11,817	336	2,668	74.7
1981	14,330	13,841	542	2,668	15,646	26	18,340	5,264	6,567	11,831	123	6,632	54.3
1982	11,345	9,734	590	6,632	11,963	20	18,615	5,512	5,207	10,719	41	7,937	59.4
1983	7,926	7,348	508	7,937	7,771	12	15,721	5,928	6,786	12,714	-232	2,775	66.4
1984	11,145	10,380	600	2,775	12,982	24	15,781	5,540	6,215	11,755	76	4,102	57.8
1985	10,685	10,229	630	4,102	13,432	33	17,567	6,399	1,960	8,359	140	9,348	56.3
1986	10,045	8,468	552	9,348	9,731	3	19,082	7,452	6,684	14,136	80	5,026	52.4
1987	10,397	10,030	706	5,026	14,760	2	19,788	7,617	6,582	14,199	182	5,771	64.3
1988	12,515	11,948	619	5,771	15,412	5	21,187	7,792	6,147	13,939	-155	7,093	56.6
1989	6/10,561	9,489	619	7,093	12,233	2	19,328	8,200	7,700	15,900	72	3,500	7/
Upland:													
1980	14,461	13,143	482	2,962	11,018	26	14,006	5,828	5,893	11,721	329	2,614	74.4
1981	14,272	13,783	542	2,614	15,566	18	18,198	5,216	6,555	11,771	140	6,567	54.0
1982	11,274	9,663	589	6,567	11,864	12	18,443	5,457	5,194	10,651	52	7,844	59.1
1983	7,863	7,283	506	7,844	7,676	8	15,529	5,861	6,750	12,611	-225	2,693	66.0
1984	11,065	10,299	599	2,693	12,852	21	15,566	5,491	6,125	11,616	76	4,026	57.3
1985	10,601	10,145	628	4,026	13,277	33	17,334	6,338	1,853	8,193	148	9,289	56.1
1986	9,933	8,357	547	9,289	9,525	3	18,817	7,385	6,570	13,955	80	4,942	51.5
1987	10,259	9,894	702	4,942	14,475	2	19,419	7,565	6,345	13,910	209	5,718	63.7
1988	12,325	11,759	615	5,718	15,077	5	20,800	7,721	5,882	13,603	-170	7,027	55.6
1989	6/10,187	9,120	609	7,027	11,570	2	18,599	8,120	7,225	15,345	82	3,336	7/
Extra-long staple:													
1980	72.5	71.7	698	38	104.2	1	143	63	33	96	7	54	108.0
1981	58.6	58.0	659	54	79.6	8	142	48	12	60	-17	65	96.9
1982	70.9	70.5	677	65	98.7	8	172	56	13	69	-10	93	101.0
1983	63.0	62.7	725	93	94.7	4	192	67	36	103	-7	82	107.0
1984	80.1	79.6	786	82	130.4	3	215	49	90	139	2	78	92.8
1985	84.0	83.6	891	78	155.1	0	233	61	105	166	-8	59	91.8
1986	111.5	111.1	890	59	205.9	0	265	67	114	175	0	84	89.9
1987	137.9	136.6	1,000	84	284.6	0	369	52	237	289	-27	53	106.0
1988	189.6	189.1	848	53	334.2	0	387	71	265	336	15	66	118.0
1989	6/ 374.0	369.5	861	66	663.0	0	729	80	475	555	-10	164	7/

1/ Compiled from Bureau of the Census data and adjusted to an August 1 480-lb. net weight basis. Excludes preseason ginnings. 2/ Includes preseason ginnings. 3/ Adjusted to August 1-July 31 marketing year. 4/ Difference between ending stocks based on Census data and preceding season's supply less disappearance. 5/ Season average, including allowance for unredeemed loans. 6/ Projected. 7/ USDA is

Senator PRYOR. Dr. Gardner, thank you. You have given us some very interesting testimony this afternoon on behalf of the U.S. Department of Agriculture. I will have a few questions to open up with, and then we will call on Senator Cochran and Senator Heflin.

I am a little bit interested in—I might even say more than that I am concerned about the so-called means test proposal that you are going to attempt to implement or have as a part of the 1990 farm bill. A means test based on gross sales, is this correct? Is the U.S. Department headed this way?

Dr. GARDNER. No.

Senator PRYOR. You are frowning. It sounds like you have never heard of that.

Dr. GARDNER. The means test proposal is not in our green book. It is not the Department's.

Senator PRYOR. So there is no proposal now from the Department to have a means test on gross income to establish eligibility?

Dr. GARDNER. No, there is not.

Senator PRYOR. Well, we may come back to that in a moment. Now the U.S. Department of Agriculture has talked a great deal—I know Secretary Yeutter recently before the full committee and you today—about more flexibility. My question is would not the simple elimination of cross-compliance, would not this provide us with the amount of flexibility that we might need?

Dr. GARDNER. It would provide some flexibility, but it would not, in our judgment, be all the kind of flexibility we need.

Senator PRYOR. Why do we need more than the elimination of cross-compliance?

Dr. GARDNER. Consider what the elimination of cross-compliance would do. All you would be saying is that a producer could expand one program crop beyond its base and not lose payments or lose the ability to collect the payments in the future on another crop. Is that what you have in mind?

Senator PRYOR. What would happen then if you used just the normal crop acreage? Would such a formula like that be an integral part of some formula to establish what?

Dr. GARDNER. I think the NCA concept will permit the flexibility that you have by eliminating cross-compliance, but it gives you some additional help too.

Senator PRYOR. All right. I think Senators Heflin and Cochran may want to question you a little bit about those issues. I will ask a couple of more questions and then I will yield for the moment.

Now the U.S. Department of Agriculture is proposing to shorten the loan period in spite of the fact that since 1985 less than 1 percent of the cotton loans have been forfeited. And further, the producers are being asked or will be asked to pay off the carrying charges if the loan is forfeited. Do you feel that this might not impact on the producer's decision if he was considering forfeiture?

Dr. GARDNER. First of all, what we are doing with the extended loan provision is not necessarily eliminating it, we are leaving it up to the Secretary's discretion. If market conditions warrant, the Secretary could extend loans on cotton as he could for other commodities.

Senator PRYOR. Dr. Gardner, I did not hear that yet. I am sorry.

Dr. **Gardner**. The Secretary, under our proposal, does have discretion to extend loans if he determines that market conditions warrant this.

Senator **Pryor**. Do you think it is too early at this point to tell in the program whether or not we should make this drastic a change?

Dr. **Gardner**. I think it is a proposal that makes sense in keeping cotton similarly constructed to other commodities. The whole purpose of having Secretarial discretion is that you do not make a judgment in advance of the market conditions when it is time to make that judgment.

Senator **Pryor**. I am not sure I am understanding you a bit. In the flexibility plan, we will switch to that for a moment or two. The flexibility that USDA is now contemplating, is this driven by the desire to become more competitive or is it primarily budget driven?

Dr. **Gardner**. The prime reason for moving to flexibility is to be more efficient in our use of land, to let farmers in the market respond to what the market wants in terms of commodities, rather than responding to target prices or other program provisions. For example, when we have the situation that we have now, even with things like the 0/25 type program, you can easily find a situation where one crop, say crop A, will yield $100 per acre of net returns, while another crop yields $50 per acre of net returns. But farmers are not going to make that substitution because they might have to give up a target price or a deficiency payment to make that switch.

But from the point of view of the efficient use of our resources and really the ability of agriculture to generate income, if we can take an acre of land from a use that is generating $50 an acre of net return and move it to where it is generating $100 an acre, there is a $50 a net gain that the farmer can get, and it is a real GNP gain for the economy.

What we want to do is to permit those adjustments to be made when market conditions call for them. And the problem we see with current law is that it does not provide the right incentives for those adjustments to be made. I think that is really what is lying behind our desire to get more flexibility.

Senator **Pryor**. I would just like to say that coming from a cotton State and knowing many cotton farmers, and also having the general idea of what it costs, the cost of production and how much it has risen in the last decade to grow an acre of cotton, I think these cotton farmers are going to use the most efficient utilization of their land possible. Historically they have done this. They are extremely efficient. I just hope that we will not go too far in sort of penalizing their ability to continue being efficient and also looking out for what they consider to be the most efficient use of that land.

Dr. **Gardner**. I do not think there is any real risk of that in our proposal.

Senator **Pryor**. One final question on this round. Dr. Gardner, is the administration proposing that we eliminate what I call the safety net, the 50-cent a pound for cotton safety net? Are you proposing we eliminate this?

Dr. **Gardner**. We are not proposing to eliminate a safety net in any meaningful sense, I believe, but we do not propose maintaining the 50-cent minimum level.

Senator **Pryor**. What do you propose to substitute for it?

Dr. **Gardner**. The loan provision would be similar to other commodities; it would be 75 to 85 percent of the 5-year moving average of prices with the Secretarial ability to reduce that by another 20 percent.

Senator **Pryor**. I have never gone to the bank to borrow any money to plant cotton. My feeling is that a banker—this may be the first thing that they would look at—is this safety net going to be there, that 50-cent a pound guarantee or not? Would not this be an integral factor in whether or not that farmer got credit or not?

Dr. **Gardner**. I do not believe it would at all. I think what the banker wants to know is what sort of return can the cotton crop generate. And the policy parameter that has most to do with that is the target price. So the thought in our provision, in marketing loan provisions generally, is we can let the market price fall; we can let loan rates fall; but when we have the target price protection there, that gives bankers and the producer an insurance that there will be a return there and from the commodity.

Senator **Pryor**. Senator Cochran.

Senator **Cochran**. Thank you, Mr. Chairman. I have been looking over some of the parts of your statement that I have not had an opportunity to look at before. We actually began the hearing today and one thing kind of stands out in my mind; and that is, the comment you made in your statement summarizing your written remarks was that you were proposing to make the cotton program comparable to grains. And I see through here other references to that. What is the rationale for making the cotton program comparable to grains?

Dr. **Gardner**. I do not think it is a major reason for doing anything, just to make it like another commodity. The overall goal in several of our proposals is to make them simpler so that producers producing several commodities do not have to learn a whole new set of provisions for the different commodities they may be producing or thinking about producing.

Now I grant that in our flexibility proposal in order to keep it flexible without getting into decoupling or other problems that flexibility can cause, and in using our NCA concept for that purpose, we got away from simplicity somewhat. So simplicity is not something we have achieved throughout proposal, but this is one aspect of it, keeping the programs understandable. And I think part of that is to keep them as similar as possible across commodities.

But I take your point that it is not that we want to change the cotton program just in order to make it like another commodity when cotton has its own characteristics, and we will take that into account.

Senator **Cochran**. I hope so. And I think that probably in addition to having an attitude about flexibility in the planting of crops, you will have an attitude of flexibility toward working with us as we try to agree on some of these differences that might come up as we get closer into the process of writing the bill.

As just a reaction to that, I think that there are some fundamental differences in the cotton production and the cotton industry with the grains. And that these ought to certainly be taken into account as we try to develop a program that will be workable and fair to the producers and the industry and consumers too.

One thing about comparability, I wonder whether or not you have a proposal that would require producers to pay charges if they forfeited their crop in other commodity areas? They do have that now that you have implemented a program where you assess producers a fee in effect, storage costs. Is there any kind of comparable arrangement for other commodity forfeiture programs?

Dr. GARDNER. Yes. The general rule is that the person who puts the commodity under loan pays storage costs.

Senator COCHRAN. The farmer-held reserve for the grains, for example, do you see that as comparable to the storage system in the cotton industry?

Dr. GARDNER. That is a different situation in a couple of respects. First, of course, the farmer-held reserve has its own history as a means of stabilizing those markets for food and feed grains. In our proposal we are changing that program perhaps as much as any of the programs that we have dealt with. In that program we propose paying a storage subsidy, but it is on a very limited quantity. And it is for a relatively short duration. We are not proposing remaining with the 3- to 5-year contracts that we have had in the past. So we are proposing some changes there too.

Senator COCHRAN. Will there be discretions suggested to move crops to market in the farmer-held reserve program as you are suggesting limiting by departmental discretion the loan terms for cotton producers?

Dr. GARDNER. With respect to an extended loan in cotton as compared to implementing a farmer-owned reserve, there would be the same kind of decision that the Secretary could make about having a program. But the changes that we are proposing in the farmer-owned reserve are more than anything else designed to get decisions about putting grain into the program and taking it out, making those decisions the farmers' decisions and not ruled by trigger prices in the kind of programs we have had in the past. That is the thrust of our changes there.

Senator COCHRAN. As I understand the administration's suggestion then, there is no objection to the continuation of the cotton program as a marketing loan type program; is that correct?

Dr. GARDNER. Right.

Senator COCHRAN. I welcome that, and I think that does show that we have made some progress, I think, in terms of building on the base of experience that has been developed over the last few years. When we were writing the bill in 1985, there was a tremendous amount of opposition to including a marketing loan program. It was seen as risk taking because we did not have the experience to base any decisions on it like projecting the cost of the program or how it would work in certain circumstances. And it frankly did get off to a shaky start, I think, if you will remember.

I think in your testimony you talk about the fact that the adjusted world price—is that what the AWP stands for?

Dr. GARDNER. Yes.

Senator **Cochran**. Got down to 22 cents a pound. That shook up everybody I bet. But what happened was we moved a lot of surplus stocks and that was the problem right then, we had accumulated tremendous surpluses and we were not competitive either. So we were sort of stuck and the rice industry was stuck.

Senator **Pryor**. That is when I was back home blaming this idea on you. But after a while when it came back then I started taking credit again.

Senator **Cochran**. I think this is a helpful starting place for us to work from. A basis of agreement that the marketing loan program should be continued, that we should look for ways to improve it and adjust it. If there are things that need improving that we can identify and agree on, I think, we would all like to see improvements made.

I do not have any other questions. I wonder if you have projected any cost though, I guess that is my final question. You have this normal crop acreage suggestion that you briefly touched on. Do you have any projections? Has anybody done any analysis of what producers would do if we implemented that as part of the 1985 farm bill? How many new cotton farmers would we create? How many fewer cotton farmers would we create? What would the cost impact be on the cotton program? Would it go up or down because of an NCA flexibility program? What about farm income, has anybody done any analysis on that?

Dr. **Gardner**. Of course, we have been trying to examine those questions and make our best projections of what would happen under our flexibility proposal. As you know from the facts you have been describing about the past, the cotton market has been very difficult to predict. So you do not know for sure what is going to happen down the road. But just, say, looking at the first year, say fiscal 1991, if we implemented our flexibility proposal, we think that you would see some more cotton acreage—perhaps something less than a million acres more.

This means you would see a slightly lower market price of cotton perhaps. I am not sure how much, but less than a nickel less. This would not though impact on the cotton farmers income because of the target price protection, to the extent that this price decline might occur. And this would mean perhaps some increase in outlays for cotton, but not very much. It is quite minor, and in fact, when we look overall across commodities, we think there would be a decline in budgetary exposure. Not a large one, but some decline in budgetary exposure because of the flexibility of the producers.

But I think the real reason for having flexibility is not so much looking at what happens in a particular most likely scenario which after all we cannot predict very well anyway. but what would happen over a wide variety of outcomes in the 1990's. We just do not know what is going to happen to relative market prices, relative demands for different commodities, or the overall demand for agricultural commodities in the 1990's. And what we want is a farm program that permits farmers and markets and Government policy to adapt to whatever occurs that cannot be predicted as well as possible.

It is in this context that we think flexibility really comes into its own because it can permit much more rapid, automatic market-based adjustments where we will not have people continually speculating on what the Government is going to do in response to changing conditions, but permits more automatic adjustments.

Senator **Cochran**. Thank you very much. Thank you, Mr. Chairman.

Senator **Pryor**. Thank you, Senator Cochran. Dr. Gardner, a few moments ago I did not mean to take you by surprise. You looked a little puzzled when I mentioned the means test concept. I do not think, by the way, the means test was in the so-called green book that was given to all the members of the committee a couple of week ago, but I do in fact truly believe and I asked the question in good faith, I think the mean test was referred to in the President's budget. And I can only assume that the President's budget in large part was written by OMB, and my other assumption is that if it is in there, I think it would be very very instructive for us or for you to comment. I am not going to ask you to comment on it now, but I will ask you in a separate question in writing if you would comment on the means test concept, because this is a dramatic move away from current policy.

I sometimes do not mean OMB jiggling around a few dollars here or there, but I would hate for them to set policy in agriculture matters. Do you have any further comments on that?

Dr. **Gardner**. I agree that this would be a dramatic change in what we are doing and it would undoubtedly create a major administrative effort if we were to try to do it, if we wanted to do it. And I will be glad to respond to it.

Senator **Pryor**. I will follow along with a written question to you, Dr. Gardner. The Department's budget does call for $1.5 billion cut in commodity programs, and I am wondering if you have a comment this afternoon on where the Department wants to cut that $1.5 billion from?

Dr. **Gardner**. I do not have any suggestions in particular this afternoon.

Senator **Pryor**. There are a lot of people here this afternoon who are interested in your response. I do not know whether you will get a more interested audience anywhere than right here.

Dr. **Gardner**. I think one thing you can say is that cotton after all has—the budgetary outlays associated with cotton have come down quite dramatically at least as far as we can see into the 1990's which is not very far. Cotton still looks like it would not be a tremendously costly program, even with frozen target prices there.

Senator **Pryor**. Thank you, sir. Now one or two final questions and then we are going to call our next witness. I think Senator Cochran made reference to this issue, and that is, any analysis of the potential acreage shifts and their impact as resulting from flexibility, the impact on farm income. Does the Department have any statistical surveys at this time or any reports that you might like to share?

Dr. **Gardner**. We do not have statistical reports, of course, because it is too early. But again to give flexibility a full run, you do not want it to just look at a particular scenario. You want to know how farm income is going to evolve under the full range of uncertainties that we face in the 1990's. And in that context, I do not see how flexibility can do anything but make the situation better for both the farmer and for the taxpayer.

Senator **Pryor**. Are you familiar with the COAP program? That is a program that Senator Cochran and Senator Bumpers and Senator Leahy helped to fund, and that was to assist the U.S. cottonseed or compete with all the subsidizing competitors that we have. I think we have appropriated $20 million a fiscal year ago and $30 million the last fiscal year. I do not know that any of those funds have been expended. Do you know?

Dr. **Gardner**. My impression is that that program has not been——

Senator **Pryor**. Any reason for this?

Dr. **Gardner**. I do not know why we have not had figures on it.

Senator **Pryor**. I am going to submit a question in writing to you and you may respond in writing to my question. I may have some other questions to submit in writing, as will other members of the committee. Senator Heflin had a few questions that he may submit in writing. Senator Heflin had to leave a few moments ago to chair the Judiciary Committee. He hopes to return shortly.

I think at this time we will express our gratitude to you for being here this afternoon. I am sure we will be seeing you during the course of the drafting and the writing of the 1990 bill.

Dr. **Gardner**. Thank you very much.

Senator **Pryor**. Dr. Gardner, thank you.

Our next witness is Dr. Carl Anderson, extension economist-cotton marketing, Agricultural Economics Department, Texas A&M University, College Station, Texas. Dr. Anderson, we welcome you today to the committee. We look forward to your statement. I wonder if you might have a summary of your statement that you might present to us, and we will put the full text of your statement in the record.

STATEMENT OF CARL G. ANDERSON, EXTENSION ECONOMIST-COTTON MARKETING, AGRICULTURAL ECONOMICS DEPARTMENT, TEXAS A&M UNIVERSITY, COLLEGE STATION, TX

INTRODUCTION

Mr. **Anderson**. Mr. Chairman, it is an honor and a privilege to make a statement concerning the U.S. cotton industry, and I will make a brief statement here before you concerning about three points.

I want to talk about where the cotton industry is a little bit, a little bit about the 1985 farm bill, and then some implications for 1990.

Senator **Pryor**. We look forward to hearing those comments.

CURRENT SITUATION AND FUTURE PROSPECTS—FIGURE 1

Mr. **Anderson**. I will be following my prepared statement, figure 1. In figure 1, we have an outline of where the cotton industry has been and a few thoughts about where we see it going. Obviously the cotton industry has done well over the last 4 years and we attribute much of that to a market-oriented farm program and quite a bit to a weaker dollar. We think the opportunities for expansion are good provided the cotton industry can maintain a competitive position with man-made fibers and foreign grown cotton.

For the next 5 years, I expect the total domestic and export use to fall in the 14 to 16 million bale range, ending stocks, 5 to 6 million, and that is assuming at 12.5 to 20 percent set-aside. So we certainly have room to expand if the market will allow it. And that follows within the 30 to 40 stocks to use range.

We must realize that cotton use was always faced with a great deal of uncertainty and much of that uncertainty is due to yield variations, due to weather, uncontrollable factors. That range in the last 4 years has had the impact of a variation of about 3 million bales given the same acreage. So it is very difficult to deal with a program with a considerable amount of uncertainty.

LESSONS FROM THE FOOD SECURITY ACT OF 1985—FIGURES 2 AND 3

Then if you will look at figure 2, I have compared the cotton market performance during 1982/85 under the 1981 act and the performance during 1986/89 under the 1985 act. The market performance under the 1985 act for the 1986/89 years shows a clear average increase in exports of one-third or more; domestic use has increased nearly one-third; and the decrease of our ending stocks on the average by about 12 percent. That also included a situation where cash receipts to farmers were up just a little. Share of the world cotton trade has increased. And we have seen our average stocks-to-use ratio decline. So we think the performance has been excellent over the last 4 years.

PROGRAM IMPACT EVALUATION OF THE FOOD SECURITY ACT OF 1985

We might ask the question, and this is shown in figure 3, of what was behind all of this remarkable improvement in the performance of the cotton market. In order to gain some insight we conducted a simulation experiment on the separate impacts of loan rates and target price, the separate impact of dollar devaluation, yield variation impact, and the impact of the conservation reserve program. And if you look at figure 3, it shows the impact from the lower loan rates and the lower target price. And the main impact here, of course, was from the marketing loan. There was a large drop in stocks and a sizable improvement in exports.

Senator PRYOR. How long did it take us to move that cotton out of storage?

Mr. ANDERSON. This is showing the average over the 4 years. This is basically the average. We have a sizable improvement in exports over the 4 years. We have seen very little change in cash receipts now just due to the loan impact. We have seen some decrease in deficiency payments from where they would have been otherwise, if we had stayed with the old type program. And we have seen a small improvement in the market price that has resulted from just the impact of the lower loan rates and the lower target price.

FIGURE 4

And the other point I would like to make on those impacts that we singled out and looked at was the separate impact of the dollar devaluation of the last 4 years which is shown in figure 4. The result is a big increase in exports each year, and more exports lead to fewer stocks and this base market price. So we clearly are showing here that the lower valued dollar was very important to us in this 4-year period.

IMPLICATIONS FOR 1990 FARM LEGISLATION—FIGURE 5

Then in figure 5, I would like to move on to look at another projection that we have made, and that is, looking at net cash income for the Southern High Plains cotton farm. We have looked at it three ways. The top line is frozen real target prices which takes into account projected inflation over the next several years. The second line, which is considerably lower than the frozen real target prices which lowers income is freezing target prices at today's level, normal target price freeze. And then we looked at the situations for this farm if we decreased the target price by 2 percent. I think it is very clear that the target price adjusted for inflation is the only alternative that shows any hope for economic viability of this cotton farm.

We have done this same simulation for other farms in other areas, and we get the same conclusion. So I would like to conclude my remarks by making about three points. As we look at the farm program provision for 1990, we think the most cost effective system would be one that would help us reinforce and expand our total use of American cotton. That is to build on the 1985 farm program. This means maintaining a very effective marketing loan, making sure that our prices are always competitive on the international market, and will continue our national efforts to maintain a competitively valued dollar that reinforces exports.

SEE FUTURES AND OPTIONS EXPANDED

And I might add I would like to say that there was a new concept in the 1985 farm bill that I would like to see expanded. And that is the use of futures and options. I think this new concept has a great deal of potential and I think it would encourage market sales, make us competitive, and reduce Government costs.

Senator **Pryor**. Dr. Anderson, I apologize, you have made your two points. I know you have one more point. I am going to race over to the Senate floor and cast a vote, come back and allow you to make your final point. Ask you two questions and then we will call our next panel.

Mr. **Anderson**. Very good.

Senator **Pryor**. Thank you. I will be back in about 10 minutes. We will stand in recess.

[Recess.]

Senator **Pryor**. I believe we will continue now with Dr. Anderson's statement. And I believe you have a final point of your summary, Dr. Anderson.

WE FEEL LIKE INCOME PROTECTION IS EXTREMELY IMPORTANT IN THE COMING 1990 PROGRAM

Mr. **Anderson**. Mr Chairman, I would like to conclude my statement with pointing out that we feel like income protection is extremely important in the coming 1990 program. Anything much less than the current target price level adjusted from inflation would make economic survival very difficult for cotton growers. Thank you, Mr. Chairman.

[The prepared statement and figures 1-5 of Mr. Anderson follow:]

Statement on U.S. Cotton Industry Prospects, Lessons from the 1985 Food Security Act, and Implications for 1990 Legislation Before United States Senate Subcommittee on Agricultural Production and Stabilization of Prices of the Committee on Agriculture, Nutrition, and Forestry Washington, D.C.

March 1, 1990

by

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Statement of U.S. Cotton Industry Prospects, Lessons from the 1985 Food Security Act, and Implications for 1990 Legislation

Carl G. Anderson

This statement presents an overview of the market prospects and government program of the U.S. cotton industry. The discussion is in three parts.

- Current situation and future prospects
- Lessons from the 1985 Food Security Act
- Implications for 1990 farm legislation

Current Situation and Future Prospects

The market for U.S. cotton has grown substantially during the 1980's because of an improved competitive position with man-made fibers and foreign grown cotton. This improvement stems largely from market-oriented provisions of the 1985 cotton program, a weaker dollar, production efficiencies, fiber and cotton textile quality enhancement, and consumers preferences favoring cotton apparel worldwide.

Consumption as measured by domestic mill use plus raw fiber equivalent of net U.S. trade in textile imports is over 12 million bales. That is almost twice the level in the early 1980's.

The American cotton industry, however, has not fully benefitted from the tremendous growth in domestic cotton consumption. During the early 1980's, a strong dollar and U.S. farm policy tended to encourage foreign cotton production. It is estimated that the cotton equivalent of textile imports is near 5 million bales, with 4 million of that foreign produced cotton. As a result, a large amount of imported cotton textiles made from mostly foreign cotton severely dampens domestic mill use.

Internationally, the U.S. is a fairly strong competitor in the raw cotton market but has fallen far short as an exporter of finished cotton goods. Export demand for U.S. cotton hinges on the U.S. market price relative to foreign competitors, level of foreign cotton production, price level of cotton versus man-made fiber, and economic growth rate in importing nations.

Lower real interest rates and a weaker dollar would greatly help reduce imports and encourage exports. In terms of foreign currency values, a weaker dollar makes imports more expensive and U.S. exports less expensive.

The U.S. is the world's largest cotton exporter, followed by the Soviet Union and Pakistan. The opportunity for large U.S. cotton exports remains good, provided farm policy maintains a competitive structure. Major markets include Japan; Korea, Taiwan, other Far East countries, and Europe. The development of strong textile industries in the Far East supports much of the growth in world and U.S. cotton trade.

Over the long-run, opportunities for the American cotton industry to expand are bright. However, American cotton must maintain a strong competitive position to increase domestic use and export shipments. In the five year horizon, from 1991 to 1995, a stable growth is expected in cotton domestic mill use and export sales (Figure 1). Assuming an expected ARP in the 12.5 percent to 20.0 percent range, cotton ending stocks should average 5 to 6 million bales or around a 30 to 40 percent stocks-to-use ratio.

American cotton growers in 1989 planted fewer acres (25 percent Acreage Reduction Program, ARP) and harvested a weather reduced crop of 12.2 million bales, three million less than the year before. With domestic and export demand strong, stocks fell substantially and the market price increased. The deficiency payment was 13.1 cents per pound.

By contrast, a season before market conditions were weak with expanded acreage (12.5 percent ARP) and high yields, the crop totaled 15.4 million bales. Demand was soft and stocks accumulated resulting in a deficiency payment of 19.4 cents per pound.

For the 1990 crop season, expectations include more acreage (12.5 percent ARP), the likelihood of a larger crop, stable usage due to a slower U.S. economy and increased export competition as foreign growers plant more cotton. A moderate buildup of stocks will likely result and weaken the market so that a sizable deficiency payment results.

The cotton market environment tends to move from strong demand and higher prices to one of excessive stocks, lower prices, and high government costs if production continues to expand without an increase in consumption and a low ARP. The uncertainty of prices both of cotton and competing crops, technology, and weather influence production levels from year to year. During the 1980's, spot prices of base grade cotton have ranged from 83 cents per pound in 1980 to 53 cents in 1986. The long term price prospects can not be very strong if a stable demand is projected.

Lessons from the 1985 Food Security Act

The 1985 farm act gave the secretary of agriculture considerable discretion to use a wide variety of farm policy tools to meet the needs of the cotton industry. Major policy goals included:

- enhance international competition
- reduce burdensome stocks
- provide a safety net under farm income

A new concept, the marketing loan was initiated under the 1985 farm act (FSA85) to expand exports and reduce stocks by removing the export restricting characteristics of the Commodity Credit Corporation loan program to set an artificially high price floor. The FSA of 1985 kept many features of the past such as acreage limitations, nonrecourse loans, and target prices. The program was more market-oriented and more flexible. Farm income was protected by using target prices and regular deficiency payments along with marketing loan repayments when implemented.

The market performance of the U.S. cotton industry has been strong under the 1985 FSA (Figure 2).

- Exports during 1986-89 increased by a strong third over the four years (1982-85) under the 1981 program.
- Domestic mill use expanded by almost a third under FSA85.
- While ending stocks declined a modest 12 percent, they averaged well above the four million bale target set in the 1985 act.
- Cash receipts continued as a major contributor to farm income, registering a small increase in 1986-89.

Program Impact Evaluation of FSA85

An econometric model developed by Dr. Dean T. Chen, Professor, Texas A&M University, was used to conduct the analysis.

Four scenarios were analyzed:

- 1985 FSA support rates scenario
- dollar devaluation scenario
- U.S. drought scenario
- Conservation Reserve Program (CRP) scenario

The results from the simulation study of the four scenarios indicate:

- The impact of the 1985 FSA target price and loan rate reduction was higher export sales, sharply lower stocks, and higher price. Cash receipts showed little change while deficiency payments registered a sizable savings in government costs (Figure 3).

- The impact of dollar devaluation also made a substantial contribution boosting export sales and supporting higher producer prices and income (Figure 4).

- Cotton yields in three of the four years were below trend projections. The severe drought condition in 1986 and 1989 show actual yield per acre more than 50 pounds lower than trend yield. However, an unusually high 706 pound yield harvested in 1987, 88 pounds above trend, offset most of the production decline caused by lower yields. The price impact was strong during years of drought. Yet, the overall price impact from adverse weather was mild as high yields mostly offset low yields. The yield uncertainty and resulting price impact from year-to-year is great. Thus, total government program cost is subject to considerable change from early projections.

- The conservation acreage reduction contributed to a small production cutback as less productive land was removed from production. The price impact of the conservation program was slightly below the effect of the reduced target price and loan rate.

In determining the success of the 1985 act, this study confirms the importance of policy provisions to enhance international competition. Much of the gain in price and income was attributable to competitive prices and the marketing loan policy. Although weather uncertainty may continue to be a critical factor affecting supply and price instability, policy action needs to be designed with flexibility to foster the proper interplay of supply and demand that keeps stocks adequate and prices competitive. In order to achieve the competitive goal, the U.S. cotton industry needs to keep productivity moving upward and costs moving downward relative to other countries.

Implications for 1990 Farm Legislation

The main challenge of the cotton industry and policymakers is to seek a level of production that keeps U.S. cotton competitive in both domestic and export markets, and, at the same time, protect farm income within reasonable program costs.

1. *Enhance Markets for U.S. Cotton*

- The cotton industry and the government both should strive to expand consumption and to reduce uncertainty impacting supply. Farm cash receipts increase and program costs drop sharply under strong demand conditions, reasonable supplies and higher market prices. In contrast, weak demand, abundant supplies and depressed price levels are costly to the industry and government.

- The marketing loan has been effective in making the U.S. cotton industry competitive worldwide.

- The calculated U.S. adjusted world price (AWP) must be competitive. Foreign competitors should not be able to influence price quotes, nor should they be able to forecast the U.S. AWP far into the future.

- Ongoing worldwide market information and market analysis are needed to project expected changes in supply/demand that are as accurate as possible. Computer based models and data bases should help in analyzing the interaction between production, supplies, demand and effects of policy provisions.

- Research designed to expand cotton consumption and export markets could have a high pay off by expanding the economic activity associated with the cotton industry.

- The Futures and Options Pilot Program, as suggested in the 1985 Farm Bill, is an interesting new concept with much potential. It is a very real possibility that options could be used to encourage marketing of U.S. cotton at prices competitive with foreign prices. Provisions in the cotton program could be designed so as to provide the producer with a strong incentive to sell cotton when the AWP is less than loan and another set of incentives could be used when price is less than the target price. This should cost the government considerably less than paying storage and interest on cotton stored for extended periods of time.

2. *Triggered Acreage Reduction Program*

- Uncertainties of yield and export demand make administering a cotton program in line with a given target such as a 30 percent stocks-to-use ratio very difficult. As a result, there is a clear need to have predetermined program flexibility to make adjustments beyond the November 1 announcement deadline. When demand is strong relative to supply, a fairly small acreage set-aside is needed. When yields, however, are average to above trend, or demand weak, ending stocks can become burdensome and government costs soar upward.

- To reach the appropriate acreage reduction, a combination of ARP and paid land diversion may be the most effective in controlling ending stocks and government costs. Without a clear signal that stocks will be brought in line with demand, program costs can more than double the second year of plentiful stocks.

- The uncertainties of production and price levels suggest the critical need for the cotton program provisions to stipulate rather rigid guidelines to follow for implementing acreage set asides, both ARP and paid land diversion.

3. *Safety Net on Producer's Income*

- Target price levels are vital to maintaining farm income (Figure 5). Studies at Texas A&M on representative cotton farms and their cash farm income indicate current target price levels that take into account inflationary forces on production costs are essential to maintain cash farm income and a chance for economic viability.

- An increase in target price could lead to an increase in government cost at the time federal budget reductions are in place. But, more resources and people would be employed in the rural community and the total tax base would increase.

4. Flexibility

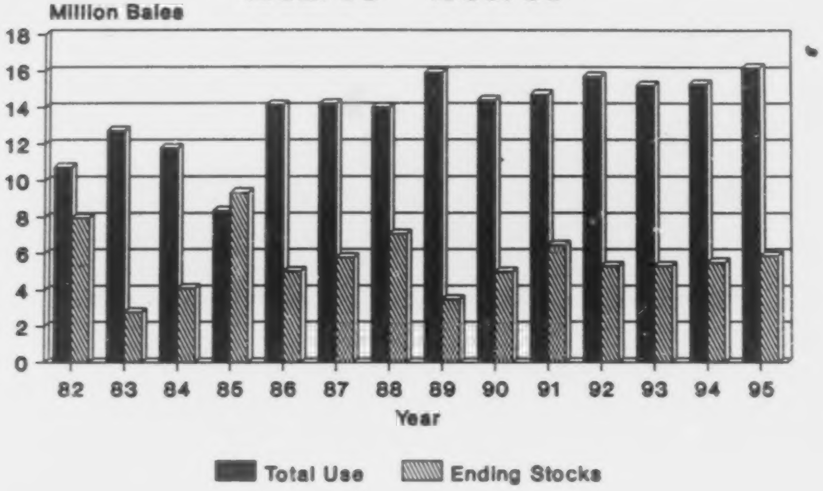
- If flexibility is pursued, then considerable attention will need to be directed toward individual crop provisions and associated benefits. It seems that the flexibility features, without considerable restrictions, would attract excess production to cotton versus feedgrains, wheat and/or soybeans. The reverse could happen when cotton prices were depressed relative to the other commodities. This could place extreme economic hardships on areas largely dependent upon a single program crop. How will the agribusiness infrastructure fare if major adjustments in cropping patterns continually occur?

5. Budget Exposure

- The cotton program, to be cost effective, should incorporate flexible but firm guidelines for targeting the desired stocks-to-use level. Uncertainties of yields and exports weight heavily on the implementation of provisions that provide enough but not too many cotton stocks.

The policy issues are clearly centered on fostering the proper interplay of supply and demand that keeps stocks adequate and prices competitive while seeking price stability and maintenance of the agribusiness and rural community.

Figure 1. U.S. Cotton Total Use and Ending Stocks 1982/83 - 1995/96



Source: USDA, 1982-89
• Estimated, 1990
••Projected, 1991-95

Figure 2. U.S. Cotton Market Performance: 1982/85 vs. 1986/89

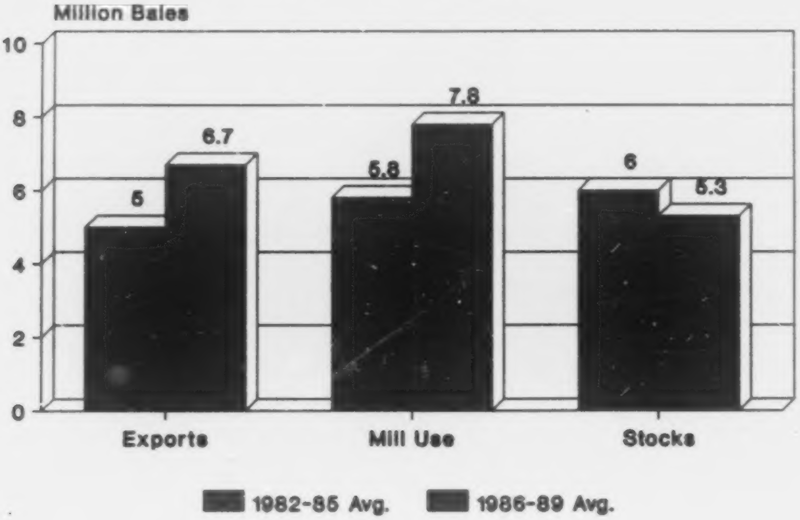


Figure 3. Impact of FSA85 Target Price and Loan Rate Reduction

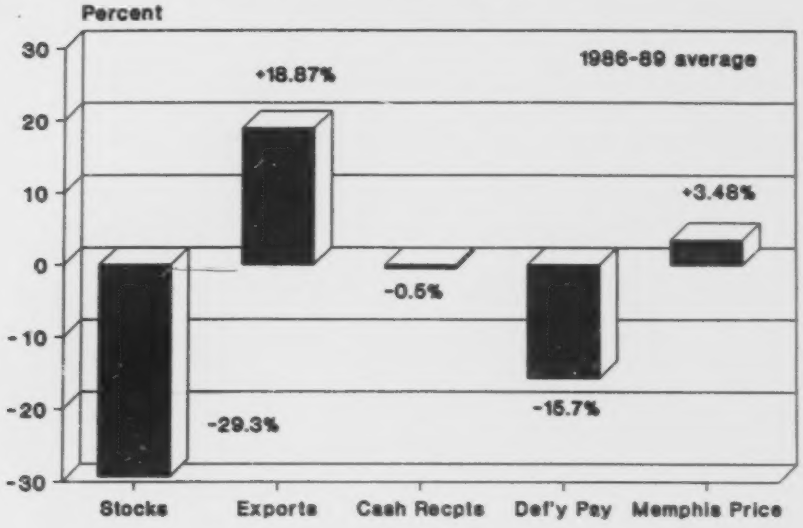


Figure 4. Impact of Dollar Devaluation on Exports

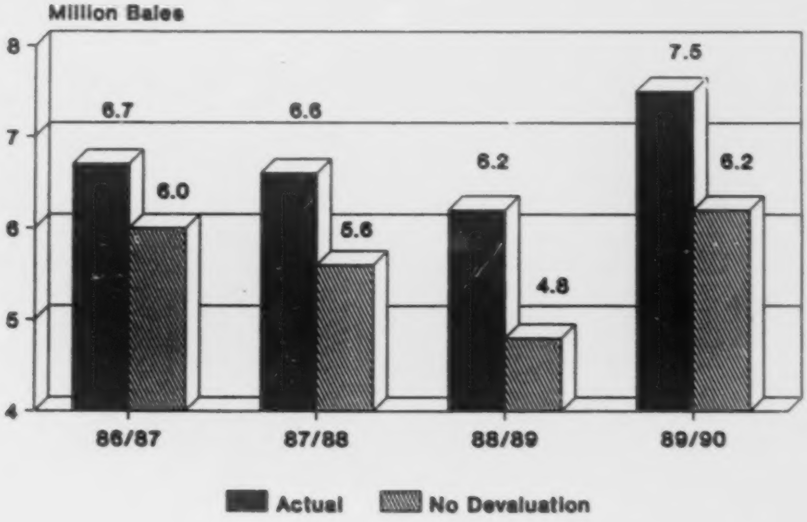
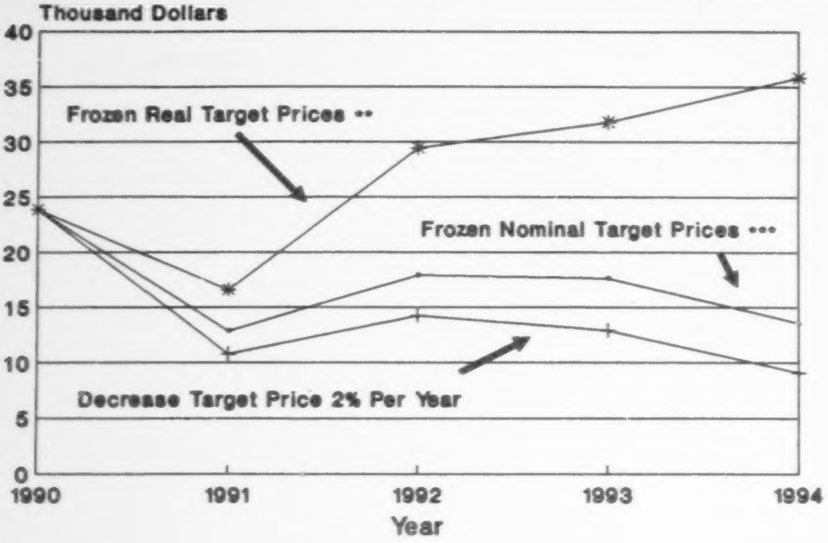


Figure 5. Average Annual Net Cash Income* for the Southern High Plains 1,300 Acre Farm, 1990-1994



* Net cash farm income equals total farm receipts plus government payments minus all cash production and harvesting costs. Family living, principle payments, taxes and machinery down payments must be paid out of net cash farm income.

** Adjusted for inflation forecasts of purchased inputs.

*** In current dollars.

Senator PRYOR. Yes, sir. Do you have any comment on any kind of a means testing concept? Have you heard of that?

Mr. ANDERSON. No, sir, I am not real familiar with what you related to.

Senator PRYOR. Now assuming that there is some flexibility brought into the program, say, for example, use the flexibility program as mentioned by Secretary Yeutter, how would this impact on environmental issues? What would be environmental results if you have done any work on that?

Mr. ANDERSON. Mr. Chairman, the flexibility issue has so many different facets to it that it is difficult to measure any point of it very well. We do have our concerns about the flexibility issue if we just turn it completely loose and free that we might see some shifting that would be very detrimental to areas with one crop. In other words, while the crop prices were depressed there, we might see some real economic disarrangements for a time period.

And then as we move on into your direct issue on the environmental impact, I think that depends very much on how the program would be administered. If we followed through with something of a concept, and that is like the Conservation Reserve Program where we removed land from agricultural production and protected it in a way that would preserve the natural resources and reduce the use of chemicals, I think that would be a very big plus factor for that.

Senator PRYOR. Relative to the flexibility, have you done any work on the domestic production of cotton as it might relate to the flexibility program or some of the concepts we have discussed?

Mr. ANDERSON. We have looked at and thought a lot about the flexibility issue. At this time, we do not have any particular numbers from any of our research that would be of value to make a statement at this time.

Senator PRYOR. How long does it take you in your research activities to get numbers on that? Let us say a proposal was brought out on the table, is it possible to bring out those figures to us or your calculations say within a 2-week period after that?

Mr. ANDERSON. This would depend upon how the flexibility program would work, and from which data base and information models that we could work from it. It would be possible to do it in 2 weeks, if it were in the right framework that fit our methodology.

Senator PRYOR. Well, I know in 1985, one of the critical factors in shaping and carving a marketing loan was the fact that we had instant access almost to good information, and that information and those numbers basically swung the debate on our side for the marketing loan. And we may be calling on you as we start marking up this bill, because a lot of new ideas suddenly start getting hatched out and thrown around. It looks like a snowstorm with paper when we start marking up with new proposals, new ideas, and I hope we can count on your very gallant research efforts, you at Texas A&M, and your colleagues.

Mr. ANDERSON. Certainly, we will be glad to help you in any way that is feasible at the time, Mr. Chairman.

Senator PRYOR. Thank you, sir, very much, Dr. Anderson. We appreciate you coming such a long distance to be before us this afternoon.

Our third panel is Mr. Tommy Funk who is the president of the National Cotton Council of America. This is one of the individuals that Senator Bentsen was going to take pride in introducing before the subcommittee. We welcome you, Mr. Funk, and Mr. Bruce Brumfield, the chairman of the Producer Steering Committee, National Cotton Council, and we appreciate very much the two of you coming.

I want to make this suggestion, if it is possible—we will submit the full body of your statement in the record—rather than holding what we might call a formalized hearing, I would only suggest that if you could summarize your statement and then just give us three or four points that you would want us to carry forward and remember by highlighting the things in your message; I think that that would be most helpful and I think would informalize the proceeding and might be more constructive.

Mr. Funk, we look forward to your statement.

STATEMENT OF TOMMY R. FUNK, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA, HARLINGEN, TX

Mr. FUNK. Thank you, Mr. Chairman. I will be glad to briefly summarize our statement.

INTRODUCTION

I am Tommy R. Funk, a cotton producer from Harlingen, Texas, currently serving as president of the National Cotton Council, on whose behalf I am appearing. The Council is the central organization of the U.S. cotton industry, representing cotton producers, ginners, seed crushers, warehousemen, merchants, cooperatives, and textile manufacturers.

THE COTTON TITLE OF THE FOOD SECURITY ACT OF 1985 HAS WORKED QUITE WELL AND WE STRONGLY SUPPORT CONTINUING ITS CONCEPTS IN 1990 LEGISLATION

Mr. Chairman, the cotton title of the Food Security Act of 1985, which the Congress devised in cooperation with the cotton industry, has worked quite well and we strongly support continuing its concepts in 1990 legislation. In the 4 years preceding its enactment, U.S. cotton offtake averaged only 10.9 million bales. But in the 4 years under the act, offtake jumped nearly one-third to 14.5 million bales. This, of course, includes the current estimate for this season, which is only half complete.

While the 1985 act is not totally responsible for the change, it played a major role by establishing a mechanism that we thought would assure price competitiveness in world markets. To a very great extent it has been successful in doing so, once the Secretary of Agriculture made adjustments in its administration.

PRICE COMPETITIVENESS

To assure that the United States maintains price competitiveness, we propose that new legislation require that when the U.S. price delivered Northern Europe is higher than the average of the five lowest-price growths also quoted in Northern Europe, the following adjustments be made to the AWP:

First, adjust the AWP pursuant to the October 6, 1989 rule of USDA.

Second, compare successive 4-week moving averages of the U.S. price delivered Northern Europe with the five cheapest growth averages. When the U.S. average is higher, issue handler certificates to domestic users or exporters in the amount of the difference.

Third, compare successive 10-week moving averages of the above prices (with the U.S. price adjusted for the above certificate value).

In any week that the U.S. average exceeds the five cheapest-growth average, open an import quota for foreign-grown cotton equal to a week of U.S. mill consumption, allowing 90 days for purchase and 180 days for delivery.

Mr. Chairman, I did want to read those because they are a vitally important part of the National Cotton Council's position.

Senator Pryor. We appreciate that.

Mr. Funk. On other areas of competitiveness and flexibility, we will be glad to visit with you and this committee in the future. We appreciate the opportunity to appear before you today.

[The prepared statement of Mr. Funk follows:]

Testimony
Tommy R. Funk, President
National Cotton Council of America
Before the Senate Subcommittee on Agricultural Production
and Stabilization of Prices
March 1, 1990

I am Tommy R. Funk, cotton producer from Harlingen, Texas, currently serving as president of the National Cotton Council, on whose behalf I appear. The Council is the central organization of the U.S. cotton industry, representing cotton producers, ginners, seed crushers, warehousemen, merchants, cooperatives and textile manufacturers. For the Council to take a position on any matter of policy, majority approval of the delegates from each of the Council's seven interests, voting separately, is required. The recommendations we will present today were approved by unanimous vote.

Mr. Chairman, the Cotton Title of the Food Security Act of 1985, which the Congress devised in cooperation with the cotton industry, has worked quite well and we strongly support continuing its concepts in 1990 legislation. In the four years preceding its enactment, U.S. cotton offtake averaged only 10.9 million bales. But in the four years under the Act, offtake jumped nearly a third to 14.5 million bales. This of course includes the current estimate for this season, which is only half complete.

While the 1985 Act is not totally responsible for the change, it played a major role by establishing a mechanism that we thought would assure price competitiveness in world markets. To a very great extent it was successful in doing so, once the Secretary of Agriculture made adjustments in its administration.

We refer, of course, to the "marketing loan" concept under which price support loans can be repaid at the "adjusted world price" (AWP). When that price is below the loan level, this allows our cotton to move into the market at world prices and has been instrumental in keeping foreign producers from taking over the export market. It also puts domestic textile manufacturers on a more even footing with our competitors overseas.

Price Competitiveness

To assure that the U.S. maintains price competitiveness, we propose that new legislation require that when the U.S. price delivered Northern Europe is higher than the average of the five lowest-price growths also quoted in Northern Europe, the following additional adjustments be made to the AWP:

1. Adjust the AWP pursuant to the October 6, 1989 rule of USDA.

2. Compare successive four-week moving averages of the U.S. price delivered Northern Europe with the five cheapest growth averages. When the U.S. average is higher, issue handler certificates to domestic users or exporters in the amount of the difference.

3. Compare successive 10-week moving averages of the above prices, (with the U.S. price adjusted for the above certificate value).

In any week that the U.S. average exceeds the five cheapest-growth average, open an import quota for foreign-grown cotton equal to a week of U.S. mill consumption, allowing 90 days for purchase and 180 days for delivery.

We believe these provisions will guarantee that the U.S. price is always competitive with foreign growths and that domestic users will never be at a disadvantage in regard to cotton prices.

Price Support Loan

The price support loan has been a vital factor in protecting farm income for well over half a century.

Since the middle 1960's, the loan level has been set by legal formula using a percentage of market prices in the most recent 3-5 years. It has been well below the cost of production. The formula of the 1985 Act was developed during the writing of the 1977 Act (as amended in 1978) and except for minimums, has been essentially unchanged since that time.

For 1990 farm legislation, Council delegates support continuation of the 1985 farm law provisions for the determining the cotton loan. I am sure that producers and shippers will share their respective views on certain details of the loan in testimony here this morning.

One final point relating to terms and conditions of the loan...our delegates unanimously agreed that no cotton program provision should in any way result in waiving the warehouseman's lien on stored cotton.

CCC Inventory Re-Sale Policy

Concerning CCC inventory re-sale policy, Council delegates believe some changes in current procedures would provide for more equitable and cost-effective administration. Under current procedure, the Commodity Credit Corporation accepts the first bid that meets re-sale specifications, and often that one bid gets all the catalogued cotton, even though several bids may be received that meet the specifications. Our delegates propose a modification in current procedure that would require CCC-owned cotton to be cataloged as soon as forfeited and sold every other week pursuant to sealed competitive bids, with a re-class and re-weight at the option of the buyer, and with the minimum acceptable bid for certificate redemption being at the AWP.

Target Price

The target price concept was written into law in 1973 and the cotton industry believes it has served us well. We support keying the target price to the national average cost of production, adjusted for inflation. The minimum, however, should be the level for 1990 as established by current law.

Payment Eligibility

While we oppose the discrimination against larger growers that results from limits on target price payments, we recognize that the Congress has insisted on such limits for nearly two decades. It has tightened the rules enforcing the limits to the point that further restriction will interfere with the ability of the cotton program to adjust supply to levels called for by demand. When the payment due to limitations becomes small relative to total revenue from the crop, there is little or no incentive to participate in the acreage reduction program, especially if the ARP approaches the 25% maximum. A very large proportion of the crop is produced by growers already subject to the $50,000 limit. Forcing more of these growers out of the program will make the acreage reduction program less effective in keeping supply balanced with demand.

Adequate Supply

Mr. Chairman, our delegates adopted a number of resolutions which acknowledge the importance of maintaining an adequate supply of U.S. cotton to service domestic and export demand. As the Committee knows, current law specifies a carryover target of 4 million bales which the Secretary is to achieve -- to the extent practicable and subject to the 25 percent maximum ARP level. Since the carryover level has meaning only in relationship to the level of demand it must service, our delegates believe a stock-to-use ratio constitutes a better carryover target than a fixed bale figure. Accordingly, we recommend an acreage reduction program which will result in a stock-to-use ratio of 33% or 4 million bales, whichever is higher. In order to avoid excessive acreage reduction programs that are damaging to the infrastructure, we favor retention of the current statutory ceiling of 25 percent on the ARP level.

Our recommendations also call for the ARP announcement to be made no later than November 1, the same as in current law. But we favor a review of the announced ARP no later than January 1, and if the announced ARP appears to be too high in light of the latest supply/demand estimates, require the Secretary to lower it. And if it appears too low to meet the carryover target, require a voluntary paid land diversion sufficient to reach the target.

Another change in current law that would help in balancing supply with demand would be to mandate that provisions for the 1/2 ARP be available at the producer's option. You will recall that this provision in the Act of 1985 permits a producer to forgo the loan and deficiency payments and set aside half the acreage required under the announced ARP for a given crop year and qualify for marketing loan benefits. In current law, though, availability of the 1/2 ARP provision is at the Secretary's discretion, and he has never permitted its use.

Still another change in current law that could help balance supply with demand would be provisions for producers who participate in the 50/92 program to be assured of a minimum deficiency payment to protect income. Unlike the 0/92 provision for wheat and feedgrains, cotton producers who elect to participate in the 50/92 program have no assurance that any deficiency payment will be received. This, of course, constitutes a sizeable risk and discourages use of the 50/92 program.

Market Development

Mr. Chairman, our concept of an aggressive, market-oriented cotton program include, not only price support and marketing loan provisions that encourage and foster consistently competitive prices, but a companion program that enhances demand for U.S. cotton through market development. The market development tools provided in current legislation have served the industry very well, indeed, and we urge the Congress to continue these provision in new legislation. Targeted Export Assistance (TEA) funds, the PL-480 program, GSM credit have all been highly instrumental in building demand for U.S. cotton abroad.

We also support continuation of the COAP and SOAP programs, providing leverage to cottonseed and sunflower seed exporters who face stiff competition from other countries but do not benefit directly from either the marketing loan or the Export Enhancement program (EEP). We recommend, however, that these programs undergo review to determine why they have not been more widely utilized.

Also on the subject of market development, we want to thank the members of this committee for your leadership in getting the Omnibus Commodity Research and Promotion Bill through the Senate last year. The American cotton producers' self-help program has been highly successful in building demand for U.S. cotton and we are anxious to see this program expanded so that even greater returns can be generated for the industry.

Flexibility

Mr. Chairman, we know that the Administration and Congress have given considerable thought to greater cropping flexibility as a means of inducing acreage into crops that are in relatively higher demand from year to year. While cotton producers have reservations about some of the flexibility approaches that have been suggested, our industry has adopted several resolutions which are fully adequate to address cropping flexibility needs.

Prohibition of offsetting and cross-compliance would substantially increase flexibility. This would allow farmers to grow some crops outside the government program when prices justify without sacrificing program benefits on other crops.

Flexibility could be further enhanced by requiring the Secretary to allow producers the option to transfer a percentage of their farm acreage bases between program crops. This privilege is available under current law only at the Secretary's discretion, and he has never allowed it.

Greater flexibility could also be achieved by providing the Secretary with authority for a crop-specific modified ARP provision like that offered to wheat growers this season where plantings above permitted acreage are traded for fewer payment acres. Allowing producers to certify zero cotton acreage while protecting base history with authority to produce other crops would also contribute to greater flexibility, as would mandating the 0/25 option for planting of soybeans and other oilseeds on program-crop permitted acres.

Disaster Assistance

With respect to disaster assistance, our delegates support the inclusion of a 0/100 program for cotton in new farm legislation, to be used only for disaster relief. Also, despite the problems associated with operation of an equitable crop insurance program, cotton producers believe federal crop insurance should be continued. Our resolution calls for cooperation with USDA to establish fair and equitable farm yield procedures for determining federal crop insurance and farm program payments. We favor provisions that would allow payment yields to be based on either current program yields or actual yield history at the option of the producer. To facilitate this, and other program provisions requiring yield information, we recommend that the ASCS offices be required to collect actual yield data from producers if the producer so desires. However, we are opposed to having eligibility for program benefits contingent upon the purchase of crop insurance.

Environmental Policy

Recognizing the importance of preserving environmental quality, delivering safe food and fiber products and maintaining a profitable and sustainable base for production agriculture, the cotton industry supports aggressive programs to solve environmental and agricultural problems. Our delegates acknowledged a responsibility on the part of the cotton industry and its organizations to (a) communicate the industry's proactive position on preserving environmental quality, (b) develop educational outreach programs on environmental quality issues, regulations and procedures and encourage the use of best available current technology, and (c) generate additional research funds to develop practical alternative production technologies with reduced unit inputs.

Council policy also calls for (a) establishment of a thorough scientific data base to determine the source and extent of environmental damage by agriculture before requiring compliance with even more strict regulatory provisions, (b) provisions for states that have established environmental protection programs affecting agriculture that equal or exceed federal standards to be considered in compliance with such standards, and (c) no further linkage of environmental compliance with farm program benefits.

Electronic Warehouse Receipts

Mr. Chairman the Council, in cooperation with USDA, operated a successful pilot project in 1989 utilizing electronic warehouse receipts rather than paper receipts. The results suggest that electronic warehouse receipts could produce significant marketing efficiencies if they were widely substituted for paper receipts. However, to do this on a commercial scale, use of electronic warehouse receipts will need to be authorized by law. We, therefore, recommend such authorization in 1990 farm legislation.

Other Recommendations

Our delegates support legislation and regulations that permit a reasonable and equitable determination of base acreage, and continuation of a recourse loan for seed cotton.

Conclusion

In conclusion, Mr. Chairman, the American cotton industry has fared better under the Food Security Act of 1985 than under any farm legislation in recent history. The recommendations we submit for 1990 legislation do not alter the general concepts of current law but are moderate course corrections to ensure adequate supplies of U.S. cotton at consistently competitive prices to service domestic and export demand.

Senator **Pryor**. I will have a couple of questions in a moment. We will hear from our friend, Mr. Brumfield. We appreciate your summarizing your statement if you could. We will put your full statement in the record.

STATEMENT OF BRUCE BRUMFIELD, CHAIRMAN, PRODUCER STEERING COMMITTEE, NATIONAL COTTON COUNCIL OF AMERICA, IVERNESS, MS

Mr. **Brumfield**. Thank you, Mr. Chairman.

INTRODUCTION

I am Bruce Brumfield, a cotton producer from Inverness, Mississippi, currently serving as chairman of the Producer Steering Committee of the National Cotton Council on whose behalf I appear here today.

CONTINUATION IN NEW LEGISLATION OF THE MAIN CONCEPTS AND PROVISIONS OF THE COTTON TITLE OF THE FOOD SECURITY ACT OF 1985

The consensus position of cotton producers, as reflected in the policy statement of the Council, is for the continuation in new legislation of the main concepts and provisions of the cotton title of the Food Security Act of 1985.

Mr. Funk has stated very well in his main policy provisions for new cotton legislation and producers strongly endorse these provisions.

Having said that, Mr. Chairman, I would like to point out four or five things that we think are very important from the standpoint of producers.

Senator **Pryor**. We welcome that insight.

WE THINK NEW LEGISLATION SHOULD CONTINUE THE TARGET PRICE PROVISION FOR COTTON

Mr. **Brumfield**. We think the target price in marketing loan, of course, has been very very valuable to the entire industry and certainly to producers. We think new legislation should continue the target price provision for cotton. In order to ensure adequate income protection, the level of the target price, we would ask to reflect the cost of production plus the adjusted inflation. Minimum levels should be no lower than provided in the current act.

WE ALSO STRONGLY OPPOSE THE USE OF GROSS RETURNS "MEANS TEST" FOR PARTICIPATION IN VARIOUS PROPOSALS

We also strongly oppose the use of gross returns "means test" for participation in various proposals, Mr. Chairman, because we think a test of this type would be very disruptive to farm programs as we know them today. Quite frankly we are frightened of what might be the impact of this, not only on producers but on the agribusiness in general.

FLEXIBILITY IS AN ISSUE THAT PRODUCERS HAVE GREAT INTEREST IN

Flexibility is an issue that producers have great interest in. The Council's flexibility proposals provide adequate means for cotton producers to grow other commodities in response to market signals, and we think that is important, yet guard against large shifts in production that could disrupt markets and dilute the effectiveness of the program and give us very volatile market activity. We are pleased to endorse the flexibility proposal made by Senator Cochran and you, Mr. Chairman. We also would suggest that the current farm bill contain several provisions which, if implemented, would greatly increase farmers' crop choices. Those being certainly the elimination of cross-compliance. We think this is the simplest means of providing such flexibility. Producers also support intercrop plantings within the farm crop acreage base, the use of 0/25 option for soybeans and other oilseed plantings, and authority for a modified ARP similar to the current wheat program.

RETAINING THE LOAN PROVISION OF THE CURRENT COTTON TITLE

Of major importance to producers, Mr. Chairman, is the loan and the loan treatment of cotton. We are in favor of retention of the 10-month nonrecourse loan. We are certainly in favor of retention of the 8-month extension. The 8-month extension, as you are aware, the charges of the 8-month extension have been changed by administrative order back in October, whereby the redeemer of the loan is responsible for the storage and the charges, if the cotton is not redeemed. And if it is forfeited to the CCC at the end of the 8 months, the producer is responsible for the storage plus $1 a bale. We favor retaining that treatment of the 8-month extension charges. We feel like this will help assist cotton move into the channels more freely. We think it will solve the problems.

WE ARE IN FAVOR OF RETENTION OF THE 50 CENTS PER POUND LOAN MINIMUM

Mr. Chairman, we are in favor of retention of the 50 cents per pound loan minimum. We feel that it is very important. We think it has great implications as far as financing crops. We feel like we can substantiate that claim because in a local instance, we know it is something that our bankers and finance agencies hang their hat on.

CONCLUSION

In conclusion, Mr. Chairman, I would like to thank you for the opportunity to appear before your subcommittee here today, and I would be most happy to attempt to respond to your questions. Thank you.

[The prepared statement of Mr. Brumfield follows:]

Testimony
Bruce Brumfield, Chairman
Producer Steering Committee
National Cotton Council of America
Before the Senate Subcommittee on Agricultural Production
and Stabilization of Prices
March 1, 1990

I am Bruce Brumfield, a cotton producer from Inverness, Mississippi, currently serving as Chairman of the Producer Steering Committee (PSC) of the National Cotton Council on whose behalf I appear. The PSC is a committee of the Council comprised of 21 cotton producer leaders from across the Cotton Belt. Its purpose is to be an advocate for issues affecting cotton producers within the Council. Every major cotton producing state is represented on the Committee, and it serves as an excellent forum for policy development reflecting a consensus of producer views.

Producers have been involved in policy development over the last nine months through regional producer meetings across the Cotton Belt and also within the Council structure. We were active participants in developing the national farm program resolutions at the Council's recent annual meeting in Washington as outlined by President Tommy Funk.

The consensus position of cotton producers, as reflected in the policy statement of the Council, is for the continuation in new legislation of the main concepts and provisions of the cotton title of the Food Security Act of 1985. Current legislation has allowed U.S. cotton to increase its world share of the market, expand cotton consumption in this country, and provide producers' price and income support when needed.

Mr. Funk has stated very well the main policy provisions for new cotton legislation which we strongly endorse. My testimony will underscore several of these points from the producers' perspective.

New legislation should continue the target price provision for cotton. In order to ensure adequate income protection, the level of the target price should reflect cost of production adjusted for inflation. Minimum levels should be no lower than provided in the current Act.

Further targeting of benefits and more restrictive payment limits should be avoided. Congress and USDA made major revisions in program eligibility rules in 1987 to which cotton producers have conformed. Year-to-year consistency of rules and regulations in this area is critical both for financing and for efficient operations. We urge that these latest revisions remain intact.

We strongly oppose the use of a gross returns "means test" for participation in various program. An arbitrary measurement such as this includes no consideration as to the type of farming operation, especially highly diversified farming operations and is particularly discriminating for commodities with high per-acre production costs such as cotton.

A major revamping of eligibility rules or the implementation of such a "means test" would cause great hardships to cotton producers. Program participation could also be adversely affected which, in turn, could diminish the effectiveness of program provisions as well as environmental compliance.

Planting flexibility has been a major agenda item in discussions of this farm bill. The Council's flexibility proposals provide adequate means for cotton producers to grow other commodities in response to market signals, yet guard against large shifts in production that could disrupt markets and dilute the effectiveness of program provisions that balance supply with demand. We are pleased to endorse the flexibility proposal made by Senator Cochran and you, Mr. Chairman. Also, the current farm bill contains several provisions which, if implemented, would greatly increase farmers' crop choices. Elimination of cross- and offsetting-compliance are the simplest means of providing such flexibility. Producers also support limited inter-crop plantings within the farm acreage base, the use of a 0/25 option for soybeans and other oilseed plantings, and authority for a modified ARP similar to the current wheat program.

Retaining the loan provision of the current cotton title in new legislation is one of the highest priorities for cotton producers. We strongly support a 10-month non-recourse loan with an optional 8-month extension. This loan program has served the cotton industry well, allowing an orderly marketing mechanism for producers. The current cotton loan formula based on moving average spot prices with consideration given to world prices has been a standard for other commodity loan programs. The 50 cents/lb. minimum has provided an important financing tool for producers and we support continuation of the minimum in new farm legislation.

Given the marketing loan, which allows loan redemptions at the lower of the loan or adjusted world price, a 50 cents minimum loan in no way hinders the movement of cotton to market; yet it provides a revenue floor which is important to lenders in making production loans. Price competitiveness on a consistent basis is necessary to ensure a viable cotton market for producers. The marketing loan provision has been instrumental in keeping U.S. cotton competitively priced most of the time since implementation of the 1985 Act. Producers have worked through the Council to make technical changes in the administration of the marketing loan to improve its effectiveness. We strongly support the continuation of the marketing loan provision with the changes outlined by Council President Funk to improve its effectiveness.

The proposal outlined by the Council incorporates existing authority of the Secretary as a statutory requirement under 1990 legislation to make adjustments in the AWP along with two additional measures involving use of certificates and even the possible importation of raw cotton. Producers are confident that these steps will ensure that U.S. cotton is competitively priced in both the domestic and export domestic markets.

In addition to making a further adjustment in the AWP under certain conditions, rule changes in October 1989 required redeemers of cotton loans, during the extension period, to pay interest and storage charges regardless of the AWP level. Also, this rule change required producer to pay storage charges accrued during the extension period on forfeited cotton plus $1/bale handling charge. Payment of carrying charges for the first 10 months of the loan continue to be determined by the level of AWP at redemption.

In the interest of assuring consistently competitive prices for U.S. cotton, producers support the continuation of these rules, both for AWP and adjustment and for the disposition of carrying charges. However, we strongly oppose any legislative or administrative requirement to prepay interest or storage charges as a condition for loan extension eligibility. A prepayment requirement of these charges effectively eliminates the option for a producer to extend his loan if market conditions warrant. Most producers would have to borrow the money to extend loans and lenders would be highly reluctant to finance speculation on a price rise sufficient to recover carrying costs and offset the potential loss of equity in the cotton (if any) at the time of extension. It is our strong conviction that continuation of the current rule provides sufficient incentive for cotton producers to market their crops in a timely manner and yet maintain the option, if needed, to extend the marketing timetable. The carrying charge requirements and the extension options are consistent with the objectives of a market-oriented cotton loan program.

Mr. Chairman, in summary I wish to thank you for providing the Producer Steering Committee the opportunity to express our views on these key program points. We look forward to working with you and your committee through the National Cotton Council on the passage of a new farm bill that will allow U.S. cotton to improve on the success it has enjoyed under current law. This concludes my testimony. I will be happy to respond to any questions.

Senator PRYOR. Thank you, Mr. Brumfield. Senator Cochran and Senator Heflin have returned now from the vote on the Senate floor, and I am going to allow Senator Cochran to ask questions because this is your very fine constituent. Senator Cochran, you go right ahead.

Senator COCHRAN. Thank you, Mr. Chairman. He is a very fine constituent and we are proud of Bruce Brumfield and the leadership position he holds in the National Cotton Council. We are very glad that others recognize his leadership qualities and have selected him to represent their interest before our subcommittee today.

In looking at some of the comments that the cotton industry has submitted through the National Cotton Council, I noticed that you are suggesting that it is important to maintain the 50 cents per pound loan rate floor for cotton. Tell me why that is so important. There was some suggestion to get financing from banks that that would be important. Why is that so important?

Mr. BRUMFIELD. Senator, we certainly concede that target prices are very important as far as income projections are concerned. But from a local banker, a local finance, a CCA, a what have you organization, the 50-cent loan minimum or the 50-cent loan is something that he can definitely hang his hat on as guaranteed collateral. As we all know markets fluctuate. We have projections of what target price payments will be, but we do not know what the offset target price is.

Also there are marketing decisions that are made throughout the marketing year by farmers. It is possible to leave money on the table, so to speak, if you make certain marketing decisions. And then you have market actions by which the target price or the deficiency payment is effected. So my guess while they look to that for additional income and they look to that for repayment, additional repayment ability, they hang their hat a great deal on the 50-cent loan minimum. Certainly that does not cover all of your furnished charges, so to speak, but that along with additional collateral that the producer would bring to the table assures him that they will be repaid.

Senator COCHRAN. When we wrote the 1985 farm bill for the first time, we saw a decline in the trend in target prices written into the law. In the 1981 bill, I think, every year it got ratcheted up. What is your assessment of what it ought to do under the 1990 bill? Should we continue the downward trend of target prices or should we consider gradually increasing level of target prices, or should they remain frozen? What is your idea about that?

Mr. BRUMFIELD. The position of the Producer Steering Committee is that target prices should reflect actual costs, adjusted for inflation. We also would hope and would ask that they be no longer than the current target price that we have for the 1990 crop. But we think this should certainly reflect cost of production. As far as loan is concerned, our position is that we think that we should have a 50-cent loan minimum. There are others who have other positions on that. As far as the Producer Steering Committee, that is our position.

Senator COCHRAN. You mentioned the importance also of the 8-month loan extension beyond the 10-month loan period. Is this important in the effective marketing of cotton? What is the benefit for the producer?

Mr. **Brumfield**. Senator, we feel that the 8-month extension provides an orderly marketing tool that gives the farmer an opportunity to derive as much income as he possibly can from the marketplace. The original 10-month loan expires right at the beginning of the harvest of the new crop. While I am not an expert in this field, almost every indication that I have ever seen is that most of the time the lowest prices for crops are during the harvest period. So when you have the maturity of the loan period coming during the harvest of the new crop and without some provision for getting into at least a few months of the next crop, you could have chaotic conditions as far as marketing is concerned.

Senator **Cochran**. Mr. Chairman, I do not have any other questions. It was a good explanation.

Senator **Pryor**. Thank you, Senator Cochran. Senator Heflin.

Senator **Heflin**. I would like to ask you about the 50-cent floor.

Mr. **Brumfield**. Senator, I am not sure in my mind, and there are others here I am sure that are more qualified that could answer this. I am not sure if it is material to the operation of the marketing loan, but I for one, and the position of the producers, we do not think that it is detrimental to the performance of the marketing loan either. And that is one of our major points in the retention of the 50-cent minimum. We think it is a benefit to producers while it is not a detriment to the performance of the marketing loan. So it is not a detriment to the competitiveness of our product of which we are all so proud that we have achieved and want to hold on to.

Senator **Heflin**. On this flexibility issue, there have been some suggestions that the flexibility not exceed 10 percent of the program crop from which you leave to go to the flexibilities of among some cotton farmers. What position relative to the flexibility with a certain percentage of the leaving crop as to how much you would go?

Mr. **Brumfield**. As far as cotton farmers across a great part of the Cotton Belt, Senator, I am not sure that flexibility at the 10 percent—I am not sure it is going to have a tremendous amount of effect. A lot of our cotton farmers are not going to be able to take advantage of that, but at the same time we do not see it being detrimental to cotton either. We think it allows the market responses to cotton without being detrimental to cotton because it is a measured response.

We are very much afraid of wholesale changes that are not measured because very frankly we do not have any experience with those numbers and nobody else does either. So we do not know how that would impact us, but we think it would probably be bad.

Senator **Heflin**. What problems in going to a normal crop acreage proposal, the kind of proposal that the administration has recommended present to the cotton program?

Mr. **Brumfield**. We think it would be extremely detrimental and extremely disruptive, Senator.

Senator **Heflin**. I believe that is all.

Senator **Pryor**. Let me just add. Let me back up, this is sort of a generic question. It does not relate to any particular matter in the current farm bill. What sort of general cooperation are you getting today from USDA and throughout, in ASCS and all the network of agricultural services, as far as your local offices on up to Washington? Has the response, has the information, are your questions being answered, are you getting good information? Just give us a general update on that?

Mr. **Funk**. Mr. Chairman, I think the lines of communication between USDA and the National Cotton Council have been good. We have been able to sit down and visit with them about their proposals. I think ASCS does a tremendous job. I think there is no doubt that they are tremendously overworked, and there has been an awful lot of change in the last 4 to 5 years in payment limitations and bases and yields, and they have had disaster programs come to bear. But I think it is amazing what ASCS has been able to do, and we feel like we have had very very sound cooperation from the Department.

Senator **Pryor**. Mr. Brumfield, do you have any thoughts or comments on that?

Mr. **Brumfield**. I would certainly second that, Mr. Chairman.

Senator **Pryor**. From time to time, those of us when we are back home in our States, we run into farmers and those involved in agriculture and they say that we cannot get good information and we do not know what the program is. We cannot get the facts and figures that we sufficiently require, so we want to keep an open channel of communication between so-called bureaucracy and the farmer.

Mr. **Funk**. Mr. Chairman, you asked me to summarize and perhaps I may have summarized a little too briefly. I do not think we need to completely rewrite a farm bill for 1990. The Council feels like the 1985 farm bill and its framework, with some minimum course corrections, if you will, is in order. And I think that would greatly facilitate the workload on ASCS and USDA.

Senator **Pryor**. Any kind of questions from our colleagues?

Senator **Heflin**. I wanted to ask Mr. Brumfield one more question. What is the position of the cotton producers on the proposal to abolish the present Government crop insurance program?

Mr. **Brumfield**. The position of the Producers Steering Committee, Senator Heflin, is that we favor retention of the crop insurance program. We have areas that are very involved with it and depend on it quite a bit. We think possibly there could be constructive revisions that need to be made, but we favor retention of the program.

Senator **Pryor**. Would you all like to help us write a new program? We want to thank our fine witnesses today. We appreciate your coming from a long distance to be a great contributing force here in our deliberations.

We will call our next panel now. This would be Mr. Robert McLendon, president, Southern Cotton Growers; Mr. John Sharp Howie, the chairman of the Executive Committee of the Delta Council; Mr. Bob McGinnis, the president of the Agricultural Council of Arkansas; Mr. Steve Verett, the president, Plains Cotton Growers, Incorporated; and Mr. James Accomazzo from Phoenix, Arizona, Arizona Cotton Growers Association.

We appreciate all of you being here this afternoon. We would like to make the request that if you could summarize your prepared statements, we would appreciate that. The full text and body of your statements will be placed in the record. And we will ask you to summarize your statements and then we will have discussions to follow.

Mr. McLendon, we will ask you first.

STATEMENT OF ROBERT E. McLENDON, PRESIDENT, SOUTHERN COTTON GROWERS, INC., LEARY, GA

INTRODUCTION

Mr. McLendon. Mr. Chairman, Senator Cochran, Senator Heflin, I am Robert McLendon, a cotton grower from Leary, Georgia, and am presently serving as president of the Southern Cotton Growers, Inc. on whose behalf I present this testimony today.

Southern Cotton Growers, Inc. is the only cotton specific regional producer organization in the United States representing cotton growers in Alabama, Georgia, North and South Carolina, Florida, and Virginia.

WE ENDORSE THE PRINCIPLES OF THE 1985 FARM BILL

As I summarize my statement, I would like to say first of all that we endorse the principles of the 1985 farm bill. This bill has provided abundant food and fiber at reasonable prices, revitalized exports, and improved farm income. We think that the new legislation should continue these policies.

WE FAVOR THE CURRENT METHOD OF LOAN CALCULATION

The CCC nonrecourse loan and the 8-month extension for cotton provides protection against undue low prices and it has assisted in crop financing and it provides orderly marketing. We favor the current method of loan calculation. Due to inflation over the last 5 years, an increase of 10 percent in the loan floor to 55 cents would be realistic, workable, and in our judgment advisable.

INDEXING FUTURE TARGET PRICES

Despite inflation, farmers experienced a downward trend in target prices for the 5 years of the 1985 farm bill. Further reductions in the target price would seriously erode farm income. We ask that you reverse this trend by indexing future target prices to the GNP price deflator based upon per acre cost of cotton production with not less than a 75 cent floor level in the target price.

WE FURTHER BELIEVE THAT PRODUCERS SHOULD HAVE FREEDOM IN THEIR PLANTING DECISIONS

We further believe that producers should have freedom in their planting decisions. You have been recently presented the concept of normal crop acreage. This concept in effect decouples the payment from specific base acreages. The proponents of this concept reason that normal crop acreage "will allow farmers to plant in response to market prices" and "improve economic efficiency." In our opinion, these results are doubtful and the future "fall out" may be disastrous with overproduction, lower market prices, less economic efficiency, as well as higher Government program costs.

In our opinion, limited flexibility is desirable. We, therefore, request new legislation requiring the Secretary to allow producers the option to transfer acreage bases between program crops based upon 20 percent of the farm acreage base.

If the producer exercises his base-switch option for 2 consecutive years, we recommend that the resulting proportionate bases become permanent—giving base building ability to the program.

CONTINUE FEDERAL FUNDING OF THE BOLL WEEVIL ERADICATION PROGRAM

Mr. Chairman, the Boll Weevil Eradication Program for the Southeast has been a successful program and we urge continued Federal funding. This self-help program where the producer's pay 70 percent of the cost and the USDA pays 30 percent of the cost has proven to be environmentally sound and has resulted in a 70 percent decrease in the chemicals used in the Carolinas alone, plus it has increased farm yields and reduced costs.

WE IN THE SOUTHEAST SUPPORT A FEDERAL CROP INSURANCE PROGRAM

We in the Southeast support a Federal crop insurance program that would provide farmers with adequate financial protection based upon cost of production. The farmer should be able to purchase crop insurance on a dollar basis such as that provided for in hail insurance.

OPPOSE CROSS AND OFFSETTING COMPLIANCE

We continue to oppose cross and offsetting compliance as it limits a farmer's ability to respond to market conditions in planting decisions and it eliminates a great deal of flexibility that was provided for in our 1985 farm bill that was ably written by this committee.

THE PRODUCER FUNDED RESEARCH AND PROMOTION PROGRAM

The producer funded research and promotion program has been highly successful and we ask that you have the highest priority in requesting you to update the legislation achieved for in the uniform assessment of domestic cotton and imported cotton products. We think this would be a very good program for us.

WE ENDORSE THE PRINCIPLES PRESENTED BY THE NATIONAL COTTON COUNCIL OF AMERICA AND THE PRODUCER STEERING COMMITTEE

The Southern Cotton Growers, Inc. has worked closely with other cotton producer organizations in the United States and we endorse the principles presented by the National Cotton Council of America and the Producer Steering Committee.

I appreciate the opportunity to be here today and give my comments and recommendations. Thank you.

[The prepared statement of Mr. McLendon can be found on pp. 545 to 549.]

Senator **Pryor**. Thank you very much, Robert. John Sharp Howie? Am I pronouncing that correctly?

Mr. **Howie**. That is correct.

Senator **Pryor**. Thank you. We appreciate you being here, and once again a constituent of Senator Cochran's. He sort of packed this hearing. We welcome your statement. If you would be so kind as to summarize.

STATEMENT OF JOHN SHARP HOWIE, CHAIRMAN, EXECUTIVE COMMITTEE, DELTA COUNCIL, STONEVILLE, MS

Mr. **Howie**. Thank you, Mr. Chairman, Senator Cochran.

Senator **Pryor**. You just give us the points you want us to remember.

Mr. **Howie**. I certainly will. I am John Sharp Howie and I am a farmer from Yazoo County and I am here representing the Delta Council, as chairman of the Executive Committee.

I would like to reiterate that we do strongly support the continuation of the marketing loan and we support that the target price and the basic loan price is not lord. We would like to see it frozen where it is or possibly higher but no lower. We support a cost of production formulation as a basis to determine the level of income protection reflected by the target price in the 1990 Farm Act, and we would like to request a look at the methodology of determining the cost of production. We have some question on the methodology presently used by the USDA.

We have reviewed subcommittee chairman Fowler's outlined proposal pertaining to the conversation title and we support the general concept that he has outlined. And I appreciate the opportunity to come here and submit my comments and review this.

[The prepared statement of Mr. Howie can be found on pp. 550 to 553.]

Senator **Pryor**. We very much appreciate you being here and sharing your comments and thoughts with us.

Mr. Bob McGinnis of the Agricultural Council of Arkansas. Bob, we appreciate you being here today.

STATEMENT OF ROBERT L. McGINNIS, PRESIDENT, AGRICULTURAL COUNCIL OF ARKANSAS, WEST MEMPHIS, AR

Mr. **McGinnis**. Thank you, Mr. Chairman. I might say it is a privilege to come before this distinguished subcommittee and make my testimony.

INTRODUCTION

My name is Bob McGinnis and I am a farmer from Marianna, Arkansas. I am president of the Agricultural Council of Arkansas. I am also a member of the board of Cotton Incorporated.

WE LIKE THE PRESENT FARM PROGRAM

I appear before you on behalf of the Agricultural Council of Arkansas. Mr. Chairman, like most cotton producers and probably most farmers across this great United States of ours, we like the present farm program. We certainly do, and we would be pleased to see it extended as is.

MORE FLEXIBILITY IN THE NEW FARM BILL

However, like most farmers, we think that it could have a bit more flexibility in the new farm bill, as opposed to the one we have now. And we believe that the best way to obtain this, of course, is yours and Senator Cochran's farmers' choice. We think this is the best way we can have flexibility is your farmers' choice proposal. And we believe that the simplest way this is included in your farmers' choice, the simplest way to bring about flexibility to the present law would be to eliminate cross compliance.

We also, like all the provisions that you have in your farmers' choice, we certainly like the flexibility provision that you have in your farmers' choice and we certainly like the fact that we have not found anyone in Arkansas opposed to the $6.25 marketing loan for soybeans. But, of course, like all of us who are rice farmers and cotton farmers, so long as the funds are not taken from any other program crops.

THE MARKETING LOAN IS PROBABLY THE GREATEST IMPROVEMENT IN FARM PROGRAMS SINCE THEIR INCEPTION

Mr. Chairman and members of the subcommittee, we wish to compliment you and Congress for giving us the marketing loan. In our opinion the marketing loan is probably the greatest improvement in farm programs since their inception. So we emphasize that the marketing loan concept should be the centerpiece for any farm legislation.

BUILDING BASE

We think it is extremely desirable that we obtain in the new farm law the privilege that cotton and rice farmers have of building base. We would very much like to see this feature kept in any new farm legislation and, if possible, extend it to wheat and feed grain.

WE ARE EXCEEDINGLY INTERESTED IN PASSAGE OF ENABLING LEGISLATION WHICH WOULD ALLOW COTTON FARMERS TO VOTE ON WHETHER OR NOT TO DO AWAY WITH THE REFUND OPTION

In regard to the cotton checkoff program, we are exceedingly interested in passage of enabling legislation which would allow cotton farmers to vote on whether or not to do away with the refund option. We think that the Cotton Incorporated is doing an excellent job. In fact, as you well know, cotton share of the overall fiber market is 52 percent and we would like to keep that competitive. We think that the Cotton Incorporated and the checkoff program is the way to do this.

WE, TOO, SUPPORT THE 8-MONTH EXTENSION OF THE 10-MONTH COTTON LOAN

I would like to add that we, too, support the 8-month extension of the 10-month cotton loan. We certainly do support that wholeheartedly. And Mr. Chairman, we have in our written statements here that we have a alternate farm program. But we do not even want to talk about that unless we run into problems with the present farm proposal that we have before you.

Mr. Chairman, I would like to say that it is certainly a pleasure for me to come before this distinguished committee.

[The prepared statement and attachments of Mr. McGinnis can be found on pp. 554 to 565.]

Senator **Pryor**. Thank you, Bob, very much. I would also like for the record to show that Mr. McGinnis is a very splendid member of our State House of Representatives and serves his people very well. One question there, Bob, and then we will come back. Our Governor was supposed to announce today in Little Rock, at 3 o'clock, central time, whether he was running for reelection or not running. Do you know anything?

Mr. **McGinnis**. I do not know anything. I think the odds are that 80 percent he will run and 20 percent he will not.

Senator **Pryor**. We will find out soon.

Senator **Cochran**. Maybe he will run for the Senate.

Senator **Pryor**. I do not know, Senator. [Laughter.]

I would like the record to show that former Senator John Melcher, a distinguished member of this committee is in our audience today. We always appreciate Senator Melcher here; a very fine member of this committee for many years.

Our next witness is Steve Verett. We look forward to your statement.

STATEMENT OF STEVE VERETT, PRESIDENT, PLAINS COTTON GROWERS, INC., LUBBOCK, TX

Mr. **Verett**. Thank you very much, Mr. Chairman.

INTRODUCTION

I have been asked to speak today for around 15,000 owner-operators, tenant farmers, landlords and related agribusinessmen. These are the members of Plains Cotton Growers, Inc. in Lubbock, Texas of which I have been a director for a number of years and I am currently serving as their president. Plains Cotton Growers represents the people who produce and process cotton in 25 Texas High Plains counties surrounding Lubbock.

I will keep my remarks short to the things that we do feel most important. I do want to stress that I will be touching on things we feel most important and that there are additional details in my prepared statement.

I would like to say also, we have that same statement and same saying in Texas that you have in Arkansas, that "if it is not broke, we do not want to be fixing it." That is the way we feel about the 1985 farm bill and especially pertaining to cotton.

We feel very strongly about the basic marketing loan provision and the target price concept of the 1985 farm bill relating to cotton.

TARGET PRICES

In specific having to do with target prices, we do feel like that they should be no lower than the 1989 crop level of 72.9 cent level and with annual adjustments reflecting the cost of production as has been echoed already here today.

NONRECOURSE LOAN

Also very important to us in Texas is the 10-month nonrecourse loan with the optional 8-month extension as it is now administered by the Department with the new rule change. We are in support of that.

FEDERAL CROP INSURANCE

We are for a continuation of the Federal crop insurance program. I do not guess there is any place in the whole Cotton Belt probably that has any more need for Federal crop insurance than the High Plains of Texas or some type of disaster program.

But we feel like the most workable solution is an improved Federal crop insurance program. Our board chairman, Mr. Myrl Mitchell, served on the Federal crop insurance commission that is just now—is making some recommendations, I believe, for some possible legislation or improvement of that program. We would suggest that these suggestions be looked at by your committee—certainly not endorsing all the suggestions of the commission, but we do feel like that there are some important issues that they bring out for improvements in that program.

FLEXIBILITY

At this time Plains Cotton Growers have no specific endorsement of any flexibility proposal, but I would say that we are for some flexibility in the program, something that would allow for some limited flexibility. We are not in favor of a wide open NCA program, as such, where there would be massive shifts in acreage programs. We feel like the authority for both cross-compliance and offsetting compliance should be removed. That alone would add a lot to flexibility.

We do not have, as I said, specific endorsement, but your own plan would be a plan that I feel like we could—after looking at, I think we could easily endorse. It meets very well with, I believe the guidelines that our organization would like to see.

THE ENVIRONMENTAL TITLE

We are concerned about the environment, and the way things are handled as producers and how we affect the environment. We would just like to ask that in anything that is written into the environmental title that the cost versus benefits be certainly considered because there are some things that we as producers can and cannot do in order to bring about compliance with environmental sections of the farm bill. We would just like to ask that the decisions would be based on advice of professionals in agricultural production and economics and on proven scientific facts. We are willing to—we want to be proactive in environmental issues and environmental impact, but we just want it to be based on sound reasoning.

Thank you very much for this opportunity.

[The prepared statement of Mr. Steve Verett can be found on pp. 566 to 570.]

Senator **Pryor**. Thank you very much, Mr. Verett.

We are going to call on Mr. James Accomazzo here. We appreciate you being here, thank you.

STATEMENT OF JAMES ACCOMAZZO, ARIZONA COTTON GROWERS ASSOCIATION, PHOENIX, AZ

INTRODUCTION

Mr. **Accomazzo**. My name is Jimmy Accomazzo, I am a cotton producer from Phoenix. I want to thank you, Mr. Chairman, for holding these hearings.

The Arizona Cotton Growers Association represents nearly 1,800 cotton producers or 85 percent of all the cotton grown in Arizona.

1990 FARM PROGRAM PROVISIONS

We believe fundamentally in the principles of market orientation. We believe in the principles of the 1985 cotton title. We believe in the concept of competitiveness. We believe that a 5-year farm program works best and allows for measured adjustment.

We strongly support the 10-month nonrecourse loan. We support the 8-month extension of that loan. Producers need the ability to market their cotton over two crop seasons.

We support the minimum loan at 50 cents per pound. We support the continuation of the target price provisions but go no lower than current law.

We support the new concept expressed as the stocks-to-use ratio. We favor the continuation of the 50/92 program.

WE OPPOSE MAKING HVI TESTING MANDATORY TO PUT COTTON IN THE LOAN

However, we oppose making HVI testing mandatory to put cotton in the loan. Arizona cotton is a high quality cotton and we are satisfied with the way we are doing it now and we would oppose that being mandatory. And should it have to be, we would request the right to have it still be classed manually provided we only paid for it once.

Now we favor, just like everybody else, the elimination of cross-compliance. I cannot even understand why we have cross-compliance. I cannot find anybody that supports cross-compliance. If we cannot have cross-compliance, think of Arizona this way. We would urge the committee to define flexibility as allowing producers to certify zero cotton production acreage while protecting base history without receiving a payment and be allowed to grow other crops, including program crops, and grown outside of the program.

JUST ELIMINATE CROSS-COMPLIANCE

In saying it another way, we would like the flexibility to farm outside of the program without losing our base. But better said is just eliminate cross-compliance.

ENVIRONMENTAL ISSUE

I would like to speak briefly to the environmental issue. In 1986 the State of Arizona passed, right behind California, probably the two toughest environmental farming laws that we have in this country. It speaks to the issue of our ground water. It speaks to the issue of the best management practices and tells us how that we are going to apply our nitrogen fertilizers. It provides for a superfund.

It increased the regulation of pesticides to the point of enforcement, licensing and rules in having to literally make application to be able to apply these pesticides. It speaks to our ground water issue. It provides that all Arizona water be safe for drinking. It goes further to compel even a private citizen to sue the State of Arizona to compel the State to force these things to happen should they find someone out of compliance. It is a very, very tough act for agriculture in Arizona.

We would hate to see the 1990 farm bill create a situation that would cause us to pay attention to two separate environmental issues. Rest assured that Arizona and California are way ahead of this situation.

Senator **PRYOR**. When was that new law implemented?

Mr. **ACCOMAZZO**. This went in 1986, Senator. It is called the Department of Environmental Quality. It is newly formed, very handsomely funded. They are endorsed by the attorney general's office. They are putting people in jail. They are serious.

Senator **PRYOR**. Have they put any farmers in jail out there in Arizona?

Mr. **ACCOMAZZO**. Yes. Mr. Chairman, that pretty well concludes our testimony.

[The prepared statements of Mr. McLendon, Mr. Howie, Mr. McGinnis, Mr. Verett, and Mr. Accomazzo follow:]

STATEMENT
of
ROBERT E. McLENDON
on behalf of
SOUTHERN COTTON GROWERS, INC.
before the
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
of the U. S. SENATE
COMMITTEE ON AGRICULTURE, NUTRITION and FORESTRY
March 1, 1990
Washington, D. C.

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Mr. Chairman, Members of the Committee........
I am Robert McLendon, a cotton grower from Leary, Georgia and am presently serving as President of Southern Cotton Growers, Inc. on whose behalf I present this testimony today.

Southern Cotton Growers, Inc. is the only cotton specific regional producer organization in the U. S. representing cotton growers in Alabama, Georgia, Florida, North Carolina, South Carolina and Virginia.

Mr. Chairman, first I would like to take this opportunity on behalf of all cotton farmers in the southeast to express our appreciation to you, this committee and the Senate for your support of American agriculture and the wisdom you have shown in maintaining a world competitive agriculture in this country while at the same time providing the American public with an abundance of food and fiber at reasonable prices and providing our farmers with the tools necessary to receive a reasonable return on their investments. For this,....you, your committee and Congress are to be commended.

We endorse the principles of the 1985 Farm Bill.
This bill has provided abundant food and fiber at reasonable prices, re-vitalized exports, and improved farm income.
New legislation should continue these policies.

Non recourse commodity loans and target prices provide the major tools for supporting a market oriented farm program while providing a measure of net farm income protection.

The CCC non-recourse loan and the eight months extension for cotton provides protection against undue low prices, assist in crop financing and orderly marketing. We favor the current method of loan calculation with the additional protection of the present floor level of at least fifty cents (50¢). Please keep in mind that we consider fifty cents (50¢) a minimum. Due to inflation over the last five years, an increase of ten percent (10%) in the floor to fifty-five cents (55¢) would be realistic, workable and in our judgement advisable.

Despite inflation, farmers experienced a downward trend in target prices for the five years of the 1985 Farm Bill. Further reductions in the target price would seriously erode farm income. We ask that you reverse this trend by indexing future target prices to the GNP price deflater based upon per acre cost of cotton production with not less than a seventy-five cent (75¢) floor level.

We believe producers should have some freedom in their planting decisions. The 1985 Farm Bill authorized the Secretary to allow producers to move ten percent (10%) of base acreage among program crops, however, the Secretary never chose to exercise this authority. You have been recently presented the concept of Normal Crop Acreage (NCA). In simple terms, Normal Crop Acreage allows the planting of substitute crops on the base acreage of any other program crop while retaining target price and loan eligibility of that program crop base. This concept in effect de-couples the payment from the specific base acreage to which it has been tied historically and enacted in former farm programs. The proponents of this concept reason that Normal Crop Acreage "will allow farmers to plant in response to market prices" and "improve economic efficiency". In our opinion, these results are doubtful and the future "fall out" may be disastrous, with over production, lower market prices, less economic efficiency, as well as higher government program costs. The proponents further reason that current Target Price Programs "encourage high program participation. We in turn argue that participation is desirable and necessary for maintaining reasonable balances in supply and demand.

In our opinion limited flexibility is desirable. We, therefore, request new legislation requiring the Secretary to allow producers the option to transfer acreage bases between program crops based on twenty percent (20%) of the farm acreage base.

Moreover, if the producer exercises his base-switch option for two consecutive years, we recommend that the resulting proportionate bases become permanent.

We are indeed appreciative of your effective long term efforts on behalf of the American farmer. Many of our citizens and leaders have grown away in "mind and spirit" from the land. These people, though having good intentions, more or less take their food and fiber needs for granted. You have remained realistic in your convictions that a strong agriculture is economically sound. You, likewise, continue to have the practical knowledge and basic wisdom that food and fiber are basic to our existence. Likewise, food and fiber in sufficient quantity and quality at reasonable prices, provide for a strong America. Present turmoil in the Communist world focuses on the necessity of realistic farm programs which you in your wisdom have provided the American people.

Daniel Webster, in 1840, said...."Let us never forget that the cultivation of the earth is the most important labor of man". These words are as valid today as when spoken by Webster 150 years ago. You in your wisdom have not forgotten them and again we thank you.

Mr. Chairman, the Boll Weevil Eradication Program in the southeast continues to be one of success and we urge continued federal funding. This self-help program (producer's pay 70% of cost while USDA pays 30%) has proven to be environmentally sound and has resulted in a 70% decrease in chemical use in the Carolinas alone, while at the same time increased farm yields and reduced costs.

We support a Federal crop insurance program which provides farmers with adequate financial protection based upon cost of production. Farmers should be able to purchase crop insurance on a dollar basis such as that provided for in "hail" insurance. Crop insurance in the southeast continues to play a major role in securing crop financing. Without crop insurance many farmers would be unable to get adequate financing to put his crop in the ground. Such insurance should not be mandatory but available to the producer at his option, at reasonable costs.

We continue to oppose cross and off setting compliance as it limits a farmers ability to respond to market conditions in planting decisions. In addition, such policies reduce drastically the participation in any type of supply/demand program and provides a double standard to those farmers affected by limitations.

The producer funded research and promotion program has been highly successful and the maintenance of this success is of vital importance to the cotton industry. This producer self-help program embodies the potential for improved net farm income and reduced government cost. We, therefore, attach the highest priority in requesting you to update the enabling legislation to achieve uniform assessments on both domestic cotton and imported cotton products.

Southern Cotton Growers, Inc. has worked closely with other cotton producer organizations throughout the country as well as the Producer Steering Committee of the National Cotton Council of America in developing recommendations for new cotton legislation.

We endorse the principles presented by the National Cotton Council of America and the Producer Steering Committee.

Mr. Chairman, we appreciate the opportunity to present these comments and recommendations.

Thank you,

JOHN SHARP HOWIE, CHAIRMAN
EXECUTIVE COMMITTEE, DELTA COUNCIL
MARCH 1, 1990
BEFORE THE SENATE SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

Mr. Chairman and members of the Committee, my name is John Sharp Howie and I am a farmer from Yazoo County, Mississippi. I currently serve as the Chairman of the Executive Committee of Delta Council, representing farmers and business leaders from Northwest Mississippi. This region of our state produces 85% of the state's cotton crop, more than 65% of the state's soybean crop, and almost 100% of Mississippi's rice and farm-raised catfish production capacity.

Prior to making very brief comments about three major areas of the new farm law as it pertains to cotton, we would like to stress the importance which we attach to maintaining the principles which this committee incorporated into the Food Security Act of 1985. Although the basic economic indices in our region do not reflect that our farmers are registering significant profits, it should be clearly noted that debt-to-equity ratios, the ability to fully service land and production costs, and the overall financial condition of our local farm economy has made a dramatic turnaround since passage of the Food Security Act. In drafting a new farm law, we would simply preface our remarks by stating that any significant departure from the major provisions of the Food Security Act of 1985 could reverse these trends of economic improvement in our rural, agricultural area.

We will highlight three basic points that are fundamental to sound farm policies for the 1990 farm bill, in our view. First, Delta Council is a strong proponent of maintaining the current marketing loan concept for cotton. Additionally, we would emphasize that the Congress should extend the 1985 farm law provisions pertaining to the CCC loan, including a loan rate formula, the 50 cent loan minimum, and the producer option for an 8-month loan extension. Analyses provided to Delta Council by economists at our land-grant university fully demonstrate that any changes in the CCC loan provisions which would limit the effectiveness of the 8-month loan extension or minimum loan rate would have an impact of reducing the value of a farmer's crop. Delta Council requests that Congress support CCC loan provisions in the 1990 farm bill which will result in strengthening the collateral and market value of a farmer's cotton during the term of the next farm bill.

Second, Delta Council views that the income protection features of the target price concept in the 1985 Farm Bill is essential to strengthening the stability of the farm economy. We would stress that target price levels considered for the next farm bill should not be less than the level of target prices during 1990, and we further encourage that Congress give careful study to cost-of-production formulations as a factor for developing reasonable target price levels. In determining national average cost-of-production for the major program crops of cotton, rice, wheat and feed grains, we would respectfully submit to the Congress that an in-depth analysis needs to be performed with regards to the significant disparities between cost-of-production figures developed by our respective land-grant institutions and those developed by the Economic Research Service of USDA. It has been the finding of Delta Council that several land-grant universities are already questioning the methodologies utilized by USDA in calculating cost-of-production, which results in the reporting of significantly lower costs per acre than reported by the respective land-grant universities in various regions of the country.

In conclusion, Delta Council would like to voice its support for the general concept outlined in proposals advanced by Subcommittee Chairman Fowler, pertaining to the conservation title of the 1990 Farm Bill. We have reviewed Senator Fowler's preliminary proposals relating to the conservation reserve program, water quality, integrated crop management, wetlands, and conservation compliance, and we view that these proposals represent a responsible and reasonable approach toward addressing the conservation needs of the next farm bill.

We are grateful to this Committee for providing farmers with the opportunity to have meaningful input into the 1990 farm legislation. Maintaining the integrity of the CCC loan as a mechanism for obtaining a realistic collateral value for our crops while enabling more profitable marketing decisions is a top priority of Delta Council in considering a new farm law. Insuring a target price level that provides adequate income protection is another very high priority of farmers in our region. The continuation of the marketing loan concept is absolutely essential to our competitiveness in world markets.

Thank you for the opportunity to appear before you today.

Respectfully Submitted,

John Sharp Howie, Chairman
Executive Committee, Delta Council

STATEMENT OF ROBERT L. MCGINNIS
before the Senate Subcommittee on
AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES
March 1, 1990

My name is Robert L. "Bob" McGinnis. I am a farmer from Marianna, Arkansas. I grow cotton, wheat, rice, and soybeans. I am president of the Agricultural Council of Arkansas. I am also a member of the board of Cotton Incorporated.

I appear before you on behalf of the Agricultural Council of Arkansas. The Agricultural Council is an organization which represents farmers who till the alluvial lands of eastern Arkansas and the Bootheel of Missouri. The Council has been serving the interests of its members since 1939. Our primary interests are cotton, rice, soybeans, wheat, and grain sorghum. Council executive vice president, Cecil Williams, is accompanying me.

We like the present farm program. We would be pleased to see it extended as is. Like most farmers and most farm organizations, we would also be delighted with a bit more flexibility in the program which would allow farmers to better use their managerial abilities to earn a profit. We believe that the simplest way to bring flexibility to the present law would be to eliminate cross compliance.

We wholeheartedly endorse all of your farmers choice proposals which would give added flexibility to farmers. Farmers like the flexible-ARP provisions contained in the present wheat program. We have not found a single Arkansas farmer opposed to the $6.25 marketing loan for soybeans so long as the funds are not taken from other program crops.

Mr. Chairman and members of the Subcommittee, we wish to compliment you and the Congress for giving us the marketing loan concept. In our opinion, the marketing loan is probably the greatest improvement in farm programs since their inception. We believe government is obligated to help make U.S.farm commodities competitive in world markets. In many instances, perhaps in most cases, government fiscal, monetary, and foreign policies are the reasons that American farmers are unable to compete in global markets without subsidies. So, we emphasize that the marketing loan concept should be the centerpiece for farm legislation. In order for the marketing loan to be most effective, there should be no floor under it. In other words, our commodities should be priced to meet prices of other countries at any level.

Another extremely desirable feature of the present farm law is the privilege that cotton and rice farmers have of building bases. We would very much like to see this feature kept in new farm legislation and, if possible, extended to wheat and feed grains.

In regard to the cotton checkoff program, we are exceedingly interested in passage of enabling legislation which would allow cotton farmers to vote on whether or not to do away with the refund option under the present program. We believe that the

Cotton Incorporated program has proven its worth and needs to be adequately funded. Given the opportunity, we believe farmers will vote to disallow refunds. Many growers say that they would like to see everyone pay their share of the research and promotion program costs.

Mr. Chairman, as I have already stated, the Agricultural Council likes the present farm program. However, if Congress does not extend the present law, for whatever reason, the Ag Council has developed an alternative farm program for your consideration. A committee of the Agricultural Council spent about two years developing this new concept for farm legislation. The program was presented to our board of directors in December 1988. The board agreed to have it disseminated with the disclaimer that we would work for passage of such legislation only if it is impossible to obtain an extension of the present law. We would like to submit a copy of this plan for the record in hopes that it will help to stimulate thought for some future date.

Mr. Chairman, an article entitled "Farm Program Conflicts" appeared in the most recent issue of Choices, the magazine published by the Agricultural Economics Society. It is most informative and shows much insight into the conflicting objectives of present farm legislation. With your permission, I would like to submit a copy of the article for the record.

Thank you for hearing our views.

FARM PROGRAM CONFLICTS: *The $50,000 Case*

by Carole Frank Nuckton

➢ Federal farm policy is replete with complex, conflicting objectives resulting from perpetually tinkering with a system established in the 1930s. The $50,000 limitation on deficiency payments to farmers illustrates one such conflict. Supply control under the acreage reduction plan won't work unless large growers participate. Attractive benefits, based on volume of production, encourage their participation, but the payment limitation thwarts it. Growers nearing the limit seek legal ways around it.

The government meets neither of its objectives with the limitation. It does not prevent large payments to some growers and it does not save money. It further complicates farm policy and adds substantial administrative costs for a program that doesn't work. And this is only one example. It is time to wipe the slate clean. Stop fixing yesterday (farm programs of the 1930s) and begin creating tomorrow by streamlining a farm policy that makes sense for the 1990s.

Policy tends to be backward looking—always trying to fix yesterday, rather than looking ahead to create tomorrow. The $50,000 farm commodity payment limitation is a case in point. It was added to farm legislation in 1970 to fix up two problems that had developed. It was aimed at reducing federal spending on farm programs and at preventing some farmers from receiving very large payments which seemed to some to be socially unjust.

A Brief Description

Since 1973, deficiency payments (the difference between the target price and the higher of the loan rate or the market price) have been one of the ways government has supported the incomes of farmers enrolled in commodity programs. Beginning in 1978, an acreage reduction plan (ARP) was added; deficiency payments were conditioned on farmers' agreeing to set aside a specified proportion of their land.

The law currently limits the deficiency payment to $50,000 per person. (A person is broadly defined as an individual, limited partnership, corporation, association, trust, estate, or other legal entity.) To make U.S. crops more competitive on world markets, the Food Security Act of 1985 (FSA-85) lowered the loan rate, while freezing target prices. Although in more recent years, the target prices have been gradually reduced. The lower loan rate, particularly in the early years of FSA-85, caused deficiency payments to be large for some producers.

Carole Frank Nuckton is Assistant to the Director of the University of California Agricultural Issues Center, located at UC Davis, and Technical Editor for the Giannini Foundation of Agricultural Economics. The topic was a special project while she was a 1989 Fellow at the National Center for Food and Agricultural Policy, Resources for the Future.

Conflicting Objectives

The $50,000 limitation on deficiency payments is but one example of conflicting objectives in federal farm programs. (The arguments about deficiency payment limitations apply as well to limits placed on other program payments whenever those limits constrain the achievement of specific program goals.)

If supply control under ARP is to be effective, large operators must be enrolled. However, because payments are based on volume of production, it seems that the payment limitation would discourage them from participating. If the payment limit were to *actually* discourage their participation, supply control would be much less effective. If the ARP were to be rendered ineffective by lack of large operators' participation, the volume marketed would rise, lowering market prices and increasing government outlays for deficiency payments to farmers.

In reality, however, most large operators find the programs so attractive that they seek legal ways around the payment limitations. With the help of lawyers and accountants, they reorganize their operations to attempt to earn what their volume of production would be worth without the limitation. The government incurs an additional administrative burden in approving or denying these plans and hearing appeals.

In turn most growers successfully avoid the payment limit. Thus, the payment limitation neither prevents large payments nor saves the government money. Neither of the payment limitation's original intents are met. The only gainers are the third parties—the lawyers and accountants.

Getting Around the Payment Limit

Consider, for example, a California rice grower farming 2,500 acres of rice. Just after the FSA-85, the 1986 deficiency payment to this farmer would be about $4.70 per cwt ($11.90 target price, less the $7.20 loan rate). Using the state's average yield of 70 cwt per acre, this farmer would receive $329 per acre in deficiency payments. In 1986, the set aside was 35 percent, so that our imagined rice farmer would plant 1,625 acres in rice and the farm would earn a total deficiency payment of $534,625—if there were no payment limit. But the $50,000 payment limit is reached with only 152 acres.

One hundred fifty-two acres is not an economic unit for California rice—for example, 97 percent of the state's rice crop is seeded by air. And much of the state's rice land is not suited for any other crop. With the help of a lawyer, this farmer "reorganizes" the farm. The goal is to add "persons" until payments nearly equal what this farm would have earned without the payment limit.

One popular way the lawyer might suggest would be the "Mississippi Christmas Tree." Persons are added, each eligible to receive payments up to the $50,000 limit. Suppose the rice farmer has a son and two daughters. The farm could be reorganized so that the father and each child receives $50,000 as individuals.

But six more legal entities could be created—a corporation for each combination of two—father, sons, and daughters: father-son, father-daughter 1, father-daughter 2, daughter 1-son, daughter 2-son, and daughter 1-daughter 2. Thus, this rice farmer family can legally receive deficiency payments of $500,000. Given our example, this number is still short of what the farm would have earned without the limit in effect. But the payments are presumably worth the lawyer's fee.

Other creative arrangements are legal. They include limited partnerships and various rental schemes.

New Rules in 1989

The press reported large farm payments informing the taxpaying public that the payment limitation policy was not working. Reports of foreigners receiving substantial U.S. commodity program payments added pressure on policymakers to fix "yesterday." In their undying attempt to "save the family farm" they sought to tighten up the rules. They had another go at "fixing up" farm programs.

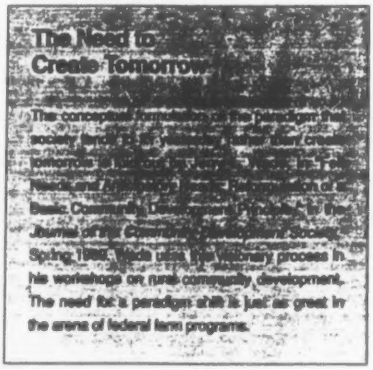
The U.S. Department of Agriculture came up with proposed legislation to restrict payments—without giving up opportunities to control production with the ARP. The agricultural interests in Congress softened the proposal somewhat, but new, stricter rules came out in the Omnibus Reconciliation Act of 1987. There are three basic changes:

- Every producer—no matter what size payment earned—must be actively engaged in farming. To receive a payment, a person must make a significant contribution of capital, land, or equipment and labor or management.
- The number of direct or indirect entities (i.e., persons) through which an individual may earn payments, subject to the $50,000 ceiling, is limited to three. The California rice farmer in our example will have to find another way to organize.
- No payments will be made to nonresident aliens unless they contribute capital, land, and labor—the Prince of Liechtenstein provision.

Effect of New Rules

The motivation to avoid the payment limit has not changed. If the market price is below the loan rate in 1989, the number of acres that would generate a $50,000 deficiency payment for a California rice farm would be only 166 acres (target price $10.80, loan rate, $6.50). If the market price should be above the loan rate, the deficiency payment will be smaller, so the acreage that would earn the limit would be somewhat larger. The tightened restrictions mean that farmers must find new ways to maximize program benefits.

One scheme for our rice farmer might be to divide up the 2500 acres into 11 parcels of about 221 acres each. With the 1989 set-aside of 25 percent, each parcel could grow rice on 166 acres and earn a payment limit. If the farmer rents these 11 parcels to employees already actively engaged in farming, they will be contributing land and labor. The rent: $50,000 or $301 per acre. The new farmers receive the wages or salaries they would have received anyway.



The Need to Create Tomorrow

The conceptual [illegible] of the paradigm that society tends to [illegible] yesterday rather than create tomorrow [illegible] "Felt Needs and [illegible] of a Basic Community Development Principle," in the Journal of the Community Development Society, Spring 198[illegible]. [illegible] uses the visionary process in his workshops on rural community development. The need for a paradigm shift is just as great in the arena of federal farm programs.

It's Time

It is time to correct this inconsistency in federal farm policy. Either the payment limitations should be eliminated or the price-income support programs should be changed so that benefits are not based on volume of production.

Because most large operators obviously avoid the limit, the system does not save the government much money; and, therefore, government payments under the present program are approximately the same as they would be without the limitation. Even under the 1989 rules, farmers will find creative ways to reorganize until payments nearly equal what the farm would earn without the limit.

Eliminating the payment limitation would mean considerable savings in program administration costs, by simplifying and streamlining the system. Supply control could operate more effectively. County offices of the Agricultural Conservation and Stabilization Service would no longer have to judge the legitimacy of their neighbor's reorganization plans. And without the payment limit, farmers would save the large fees now paid to third parties.

Despite the logic for eliminating the payment limitation, it will likely remain entrenched as an integral, albeit conflicting, part of farm support programs.

The limit gives the "right" political signal in that it presents the perception that our legislators are for the American family farm—and against the large commercial agribusiness operations—although the reality is quite different. Besides, doing away with the limit would no doubt bring unwanted scrutiny upon the entire farm program.

Time to Create Tomorrow

The payment limitation policy is only one example of conflicting objectives built into federal farm programs. Policymakers continually look backward, "fixing up" the farm programs of the 1930s, trying to adapt them to the agriculture of the late 1980s. The result is inefficient, costly complexity, with multiple instruments working at cross purposes.

Again, take California rice growers, for example. They are offered a deficiency payment as long as they participate in ARP and meet other eligibility criteria (but the payments are limited). They are also offered a marketing "loan" whereby they can pay back their loan at the world price if it is lower than the loan rate. Marketing loans have two objectives: (1) to make rice "competitive" on world markets, i.e., subsidize exports to match the Thai price plus a premium for U.S. quality, and (2) to use up surplus Commodity Credit Corporation (CCC) stocks.

The second objective is intended to raise the domestic market price in order to decrease deficiency payments. However, CCC stocks were at zero in 1987/88 and 1988/89, while both the ARP and marketing loans continue for the 1989 crop. Finally, a large part of commodity payments are now off-budget, being made in generic PIK certificates which have created a new money market—and an opportunity for third party brokers, accountants, and speculators.

I conclude with two questions: Couldn't all this be simplified? Could we make an entirely new beginning with the 1990 farm bill—not looking back to fix up yesterday, but ahead to create tomorrow?

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Like most farm organizations, the Agricultural Council of Arkansas would prefer to keep the present farm program if that be possible. However, many signs and public utterances by high level government officials indicate that the farm program must be changed. Unfortunately, most predictions are that future government farm aid must be reduced.

For the past three years, the Agricultural Council of Arkansas has had committees working to develop an alternative farm program should we no longer be able to keep the desirable law we now have.

The enclosed plan is more of a skeleton or blueprint rather than a finished program. It has been developed with the idea of encouraging other groups and individuals to add to it and help fill it out.

We encourage your suggestions and criticisms.

We recognize that those who offer new ideas and suggestions subject themselves to extreme criticism. We are willing to risk such ridicule in the hope of opening discussion which will yield better ideas than ours.

LET US HEAR FROM YOU!

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ALTERNATIVE FARM PROGRAM

The one man one vote rule promulgated by the U. S. Supreme Court in the 1950's has now become political reality. Political power in the U. S. now resides securely in the great masses of urban residents, better known as consumers. Long range agricultural policy, if it is to persist, must address the needs of the consumer.

It is essential to a sound U. S. economy that a vigorous farm economy be maintained. If U. S. Consumers are to have a high quality, dependable and inexpensive food and fiber supply, then this country must develop a long range agricultural policy which will assure that U. S. farm products will be competitive in world markets and that U. S. producers will be able to produce these products profitably. It must be recognized that while producers would benefit from such a long range agricultural policy, the benefits to consumers, and the economy at large, far outweigh any benefits which would accrue to producers.

We believe that a workable farm program which serves the needs of both consumers and producers, should encompass the following points:

1. Over the long run, agriculture must be profitable. Ideally, farmers income should come from the marketplace. However, if world economic conditions will not permit farmers to earn a profit from commercial sales, then consumers must help farmers cover their costs through government subsidies. Under these conditions, low commodity prices, costs to consumers would be more than offset by lower food and fiber prices.

2. Agriculture uses sunlight, a renewable resource, as its predominant energy source and actually produces more goods than it depletes from nature. As a result, agriculture is one of the nation's most productive industries and must have the freedom to manage its resources in the most efficient manner. This means no restrictions on production.

3. This country must develop a long range agricultural policy which will assure consumers a bountiful, high quality, inexpensive food and fiber supply while assuring profitability to producers and a functional level of competitiveness in world markets. We believe the marketing loan concept is the best mechanism for achieving such a goal.

4. Any farm program must be as equitable as politically possible.

5. Any farm program should calculate benefits, loans and payments on farm program bases and payment yields.

6. Any farm program should be designed so that surplus commodities are used to the maximum extent possible in administering the program.

7. Taking into conisderation the above points, a farm program should be as simple and easy to administer as possible.

8. Political reality seems to dictate that any farm program give special consideration to the family farm.

We would like to emphasize that the programs farmers knew and trusted in the forties, fifties, and early sixties are no longer viable options. In those years, programs were geared toward domestic cosumption only and enjoyed a certain degree of success. The shortcoming of such programs was that farmers learned to produce more on limited acres. This led to surpluses being produced on limited acres because minimum loan levels were too high for us to export. High loan levels also led to increased production abroad which foreigners would price below our rigid prices, thus capturing our markets. Finally, in 1965 Congress put an end to such programs with the Food and Agriculture Act of 1965 which ushered in direct payments.

Congress recognized that we were entering a period of global markets, that it would be necessary for the U. S. to compete pricewise for such markets. There was temptation on the part of many to develop a two price system for commodities which would let us set prices low enough to export and set much higher prices for the domestic market. It was quickly discovered that such a program would work undue hardship on domestic industries and was quickly abandoned. Most people dealing with agriculture now realize that we are competing on a world market where prices must be low enough to meet competition. The only way to enable us to do this is with government help through programs such as the marketing loan.

Two items that the Ag Council would like to see in a new farm program is no required setaside and maximum flexibility in switching between crops so that a farmer has an opportunity to manage his operation for a profit.

This paper is an attempt to create a skeleton of a farm program with the hope that others will help to fill it out. This should lead to a very workable program with broad based support.

Hopefully, a new program will not require farmers to spend nearly as much of their time in ASCS offices as they have in the past.

Any new program will need to incorporate the easiest possible transition from the present program to the new program. Therefore, we would start with the present acreage bases to develop new bases which would consist of pounds or bushels. The new bases would be obtained by multiplying the present acreage bases by the farm payment yield. So, the new bases would be either pounds or bushels.

It is our opinion that the marketing loan must be the centerpiece of a new farm program. For a marketing loan to be effective, it must have no floor. We believe U. S. farmers to be as efficient as any on earth; but, they cannot compete, without government assistance, with subsidized farmers from other countries. We believe the U. S. government is obligated to keep American agriculture competitive with other countries and the true marketing loan is the best tool for achieving such a goal.

With a marketing loan, there must be a basic loan rate which farmer's may use for planning purposes. We would like to await discussions with other groups before recommending loan levels. We believe new loan levels should be somewhat higher than present levels. We think it would be highly desirable if farm organizations could develop mutually agreeable formulas for setting loan rates for program crops. Target prices could also be incorporated if other groups insist on them, but we believe the program would be more efficient without them.

We would recommend that a new farm program have no acreage reduction programs. Such programs have not proven very effective in reducing production. Idled acres are very expensive to farmers. It would be better for a farmer to produce a crop on such acres, even if he loses money on such crops, because he would lose much less than he would by idling the land and keeping it free of weeds, etc. Furthermore, every time American farmers mandatorily reduce acreage for any program crop, farmers in other countries know about it and increase their acreage accordingly, thus negating the effectiveness of the acreage reduction.

If one or more program crops got into an oversupply situation, the payment bases for crops in oversupply would be reduced. A farmer would not have to idle any acreage or reduce the planted acreage of the crop with excess supply; it would be a simple matter of reducing the number of bushels or pounds on which benefits were available.

The following is a sample farm that will be used as an example of how the program might work.

SAMPLE FARM
(1989)

Present Program			New Program
Crop	Yield	Acres	Pounds/Bu. Base
Wheat	40 bu./ac.	100	4,000 bushels
Milo	4,500 lbs./ac	100	450,000 pounds
Cotton	700 lbs./ac.	300	210,000 pounds
Rice	5,000 lbs./ac.	200	1,000,000 pounds
Soybeans	25 bu./ac.	300	7,500 bushels

New Year Under New Program

Crop	Farm Base	Percent Needed	Program eligible
Wheat	4,000 bushels	90	3,600 bushels
Milo	450,000 pounds	90	405,000 pounds
Cotton	210,000 pounds	75	157,500 pounds
Rice	1,000,000 pounds	75	750,000 pounds
Soybeans	7,500 bushels	100	7,500 bushels

Under this example, USDA decides that 90 percent of the national wheat base would be needed to produce the domestic and export needs for the crop. Since the nation's supplies of feed grains are in relatively short supply, 90 percent of the milo base would be needed. Cotton and rice are both in oversupply, therefore, only 75 percent of the base for each crop would be needed to meet the country's needs - domestic and export requirements. Soybeans are in a very tight supply situation, consequently, 100 percent of the national base would be required to meet demand and replenish supplies.

Hopefully, a new law would be limited to a maximum poundage or bushel reduction of 25 percent for each crop.

The percentage of the farm base needed by the nation and, consequently, eligible for program benefits would be identical to the national need.

This sample farm could be planted entirely to wheat, but only 3,600 bushels would be eligible for program benefits. Or it could be planted entirely to cotton, but only 157,500 pounds would be eligible for program benefits. If the farm could produce 157,500 pounds of cotton on 100 acres, it would enjoy full benefit of the cotton program and could plant the remainder of the base that had been devoted to cotton to another crop (without program benefits). If the farm could produce the full amount of all the poundage or bushel bases on 500 acres, the remainder of the farm could be planted to any crop, program or nonprogram, without luxury of the loan or any other program benefit.

Under this program any amount of a commodity produced in excess of the farm base would not be eligible for loan and would have to be sold at market price or held entirely at the expense of the producer. It might be possible to have a recourse loan on such production.

Rather than have the program bases frozen forever, it seems preferable to provide a mechanism, perhaps a five-year time period for establishing new bases. A five year moving average based on proven yields has been suggested. If the base for one crop increases, probably the base for another crop would decrease unless farm yields of all crops rose significantly. By having such a system, farmers who were doing a good job of production would enjoy the the benefit of their efforts by having their bases increased.

The Ag Council has generally favored paid diversion programs so long as they are voluntary. Any program that is voluntary leaves the farmer with flexibility to manage his farm to maximum potential efficiency.

Politics makes it prudent to develop special concessions within farm programs to boost the family farm.

1. The general public and almost all politicians consider the family farm to be the backbone of American agriculture. The family farm is an ideal place to raise children, a place where the highest of American values are instilled in young people.

2. The family farm is necessary for the survival of rural communities.

We have not discussed special concessions in a new farm law for the family farm. We have some ideas on the subject but would like to talk with other groups before advancing them.

Advantages of Program: There are several advantages to the program outlined above to both the producer and the government.

(1) It gives the producer maximum flexibility to manage his farm.

(2) It would have no mandatorily idled acres to drain the resources of the producer and reduce the business activity of local communities and agribusinesses nationwide.

(3) It would allow USDA to predict the cost of the farm program based on the way the government keeps books. As we understand the present accounting system, potential costs of nonrecourse commodity loans are considered a cost to the farm program. Under

the present system, all of the pounds or bushels of a commodity harvested, if it is produced by a program participant, is expensed to the government. Under the program outlined, there would be a definite limit on government's cost. It would be limited to the loan level times the national poundage or bushel quota for the program crops, if they go into the loan. If it were not necessary to invoke the marketing loan or take over commodities through forfeitures, the government's real farm program cost would be virtually nothing. Most of all, as far as Congress is concerned, the maximum potential cost of the program would be firm.

(4) Foreign producers could not look at our setasides and predict how much the production for any program crop would be reduced in the U.S. in any year. This, in conjunction with the true marketing loan, would prevent foreign producers and foreign governments from knowing how much it would cost them to produce and sell a commodity cheaper than the the U.S. would be willing to do it and would tend to keep us competitive in world markets. This would be beneficial to farmers and the U. S. government alike.

(5) The program would be much simpler to administer than the present program. Good for farmers and government alike. Much easier for farmers. Would not spend much time in ASCS office.

STATEMENT OF PLAINS COTTON GROWERS, INC.
BEFORE THE
SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING AND STABILIZATION OF PRICES
Presented by Steve Verett
March 1, 1990 -- Washington, D. C.

Mr. Chairman, we appreciate the opportunity to be here today and to participate in the hearing process that has served so long and so well in the development of legislation with the far-reaching effects of a major farm bill.

I've been asked to speak today for around 15,000 owner-operators, tenant farmers, landlords and related agri-businesses. These are the members of Plains Cotton Growers, Inc., of which I've been a director for a number of years and am currently serving as president. PCG represents the people who produce and process cotton in 25 Texas High Plains counties surrounding Lubbock. My remarks today are meant to convey, as nearly as possible, their feelings about a 1990 farm bill.

Essentially the existing PCG farm bill point of view dates back to 1985, and even before, when the 1985 Act was being put together. Our directors and staff are talking every day with members from every county on the Plains, and what they are telling us is that the cotton section of the current program is pretty much what they want in the 1990 farm bill. I can almost say they're repeating the old saw that says "If it ain't broke, don't fix it."

However, that's not quite accurate, because just about everybody has at least one suggestion for a way or ways the program can be improved. But when it comes down to the basic marketing loan-target price concept of the program, the complaints we hear are few and far between. For the most part the marketing loan has restored U. S. cotton's competitiveness in world markets, and USDA late last year made administrative changes in the adjusted world price procedure that should make it even more effective in that regard.

And the target price concept is a proven method of giving producers a reasonable measure of income protection. As for the target price level, we think the 72.9 cent level in effect for the 1990 crop should be an absolute minimum for 1991 and in all fairness should be increased annually to compensate for any increases in production costs, largely coming from inflation -- a factor over which we have no control.

As we pointed out in our 1985 farm program policy position, the target price system is a vital part of a market-oriented farm program. Without a cost-related target price, the pressure to set loan levels without regard to market consequences would be irresistible. And everyone in the industry I think agrees that such a course over time would be disastrous.

On the marketing loan, we support a continuation of the market-based loan level formula and other loan program provisions as currently administered under the 1985 Act. It should go without saying, but since the issue has been controversial in some quarters, I emphasize that our position includes support for 8-month loan extensions at the producer's option, as under current law, except when the 30-day average market price exceeds the previous 36-month average spot price.

One of the most talked about changes in the 1985 Act, and one which could have very broad effects, is the need for greater flexibility. I'm sure the members of this committee are familiar with flexibility plans proposed by Senator Boschwitz and by the Administration. In the Senator's words, the plans would provide a less rigid program and allow farmers to run their operations in response to market signals, not government dictates. At first glance this sounds good. Almost like every farmer's dream. But I think this committee will want to look at more than this simple definition. Flexibility provisions, whether from the Senator or the Administration or some other source, will have an effect on virtually every aspect of the program. And before we endorse these or any other major changes, I think we want to look long and hard at how they will impact overall program objectives -- particularly commodity supplies, markets and prices.

Federal crop insurance and disaster programs are also prominent in this year's debate. The Federal Study Commission for the Improvement of Federal Crop Insurance, on which our Board Chairman Myrl Mitchell is the cotton spokesman, has studied the federal crop issue extensively, and has offered some excellent recommendations for making it a more viable program. We hope those recommendations are given serious consideration as a part of the 1990 farm bill.

As it now stands, there is no way under FCIC that we can get the protection we need against natural disasters. Without going into detail, there are a lot of reasons for that, including both yield and price guarantees that are too low to do the job. Those are only two of the major problems covered in the Study Commission's recommendations, and they along with others deserve serious consideration.

We have only one problem with the Administration's proposal to replace federal crop insurance with a "standing disaster program." That problem is with the terms of the proposed disaster program itself. I'll clarify that with only two points. First, the program as outlined by the Secretary would require heavy county-wide losses before any producer, regardless of individual loss, would be eligible for loss protection. Second, all payments would be based on county average yields as opposed to individual farm yields, which represents a gross inequity to our most productive farmers.

I don't want to belabor the issue Mr. Chairman, but in West Texas we are just one hail storm or one missed rain away from being right back in a severe economic strain. So we need disaster protection we can depend on year after year. We need a disaster program much better than that proposed by the Secretary, or we need a much improved federal crop insurance program. Finally on this subject, Mr. Chairman, to buy or not to buy crop insurance is a financial decision to be made by each farmer based on his individual circumstances. Therefore we reject any suggestion that insurance be made a condition for farm program eligibility.

I'll only take time to touch briefly on three more things -- the environmental issue, textile imports, and the need for a uniform Cotton Incorporated assessment. On the latter two issues, the Cotton Incorporated assessment and textile imports, the PCG Board has a firm position on both. First, we are on record as favoring elimination of producer refunds of the CI assessment, if and only if, the cotton content of textile imports is assessed. Second, we have strongly endorsed more effective control of the textile imports that are steadily taking more and more of the markets from our domestic mills, and taking our domestic market for raw cotton right along with them. It simply doesn't make sense for us to be cutting acreage 25 percent, only to see foreigners take our markets and depress our prices with imports.

Frankly it's hard to know what to say about the environmental situation. I doubt if there is anybody in agriculture or anywhere else who doesn't favor protecting the environment. Everybody wants clean air, healthy food, pure water, productive soil from now on and even an ozone with no holes in it. Yet one of the most controversial parts of the 1990 farm law may be the environmental section. The reason for the controversy, since we all have the same objectives, it seems to me is a question of cost versus benefits. Until we see specific proposals, I think all we can do at this time is ask that the Congress very carefully weigh both the costs and the benefits of environmental provisions as they are considered. We would like you to keep in mind that there are things that farmers can do to protect the environment and still produce a consistent and dependable supply of food and fiber. And you'll find most farmers ready and willing to do those things. But there are things we can't do -- things that look good in theory and make good headlines but just aren't practical in today's world.

In short, we ask that costs as well as perceived benefits be considered in the writing of environmental provisions in the 1990 farm law. And we ask that your cost-benefit assessment be made on the advice of professionals in agricultural production and economics, and on proven scientific fact, not on misinformed editorials and slanted TV documentaries.

Again, we appreciate the opportunity to present our views, and if there are questions I can answer, I'll do so to the best of my ability.

STATEMENT
of
James Accomazzo
Chairman
National Legislative & Regulatory Affairs Committee
Arizona Cotton Growers Association

Before
the
U. S. Senate Committee on Agriculture

Washington, D.C.

March 1, 1990

ACGA TESTIMONY
1990 FARM BILL

Mr. Chairman and Members of the Sub-Committee:

My name is Jim Accomazzo, a cotton producer from Phoenix. I am also here to represent the views of the Arizona Cotton Growers Association in my capacity as Chairman of the Association's National Legislative & Regulatory Affairs Committee.

First, I want to thank you, Mr. Chairman, for holding these hearings to permit us to present our views on the contents of the 1990 Farm Bill.

The Arizona Cotton Growers Association represents nearly 1800 cotton producers or 85% of the cotton acreage in Arizona.

Before I comment on our recommendations regarding the 1990 Farm Bill, let me make some observations about cotton production in the Southwest.

The production of cotton in Arizona is characterized by the following:

-an arid climate requiring flood irrigation
-an average production of 1 million bales a year since 1981
-1200 cotton farms with an average of 240 acres. Of the total cotton farms in Arizona only 16% have acreages of 500 acres or more.
-high water and electricity costs
-85% of our production is exported

I mention this to acquaint you with one salient fact about cotton production in one Western state; the margins for profitability are narrow thereby emphasizing the importance of marketing, competition, and the impact of farm programs.

As the number one cash crop in Arizona; as the one crop which determines a farm's profitability even though other crops are produced, cotton is the driving force for most crop producers in Arizona.

A farm program which does not combine the twin policies of market orientation and competitiveness is bound to create economic problems for those of us in Arizona.

Further, Mr. Chairman, cotton producers in Arizona are far more interested in those policies which permit them to meet the demand for cotton, bearing in mind that their market is the Far East, at a price which will, hopefully, exceed their high costs of production.

In this context, the Arizona cotton producers are committed to a farm program that balances supply and demand and which makes Arizona cotton "competitive" on the world market.

Farm Program "Principles"

Mr. Chairman, understanding the conditions of cotton production in Arizona and our strong views about economic opportunities, we have adopted the following principles:

First, we believe fundamentally in the principles of "market orientation." Such an approach is far preferable to past policies of government intervention and mandatory participation.

While market orientation policies are not perfect, we believe that the provisions of the 1985 Farm Bill represent continued evolution and if fine tuned should be extended to the 1990 Farm Bill.

Second, we believe in the principles of the 1985 cotton title.

Third, we believe in the concept of competitiveness.

Finally, we believe that a five-year farm program works best and allows for measured adjustment.

1990 Farm Program Provisions

While we support the principles of the 1985 Food Security Act, the 1985 Cotton title, and in particular, the 1990 resolutions of the National Cotton Council, the Arizona Cotton Growers Association would like to emphasize the following as essential to the development of the 1990 Farm Bill:

First, we strongly support a 10 month non-recourse loan with an optional 8 month extension under the same terms and conditions of the current Act. The loan level should be based on a moving average of U.S. spot prices with a minimum loan of 50 cents per pound.

We believe that the 8 month extension is a fundamental part of our cotton marketing program. Producers need the ability to market their cotton over two crop seasons.

Second, the loan repayment should be based on the provisions of the marketing loan to allow for U.S. cotton to be competitively priced in domestic and export markets.

Third, we favor the current maximum acreage reduction of 25% and would favor a cotton specific flexible ARP to be used at the Secretary's discretion. In addition, we favor the mandatory provision for a half ARP at the producer's option.

Fourth, we favor continuation of the target price provisions but would recommend that the target price go no lower than current law and should be adjusted to the national average total costs of production.

Fifth, the carryover target should be expressed as a stocks to use ratio.

Sixth, we favor announcement of program requirements by November 1, but no later than December 1st.

Seventh, we favor the continuation of the 50/92 program.

Eighth, in respect to "competitiveness" we believe that the Secretary of Agriculture should have discretionary authority to adjust the Adjusted World Price.

Ninth, we oppose making HVI testing mandatory for cotton going into the loan. If, however, this does become a requirement then Arizona producers want to have the right, under law, to request manual classing without cost to determine the best results for the producer.

Finally, we urge the Committee to define "flexibility" as allowing producers to zero certify cotton production acreage while protecting base history without receiving a payment, and be allowed to grow other crops, including program crops grown outside the program.

Mr. Chairman, these represent some of the important elements of a cotton program in the 1990 Farm Bill as we see them. There are other provisions in the current Food Security Act that we also endorse, but these are what we believe are important to Arizona cotton producers.

Other Issues

Mr. Chairman, I would like to now turn to other important issues which are being discussed in connection with the development of the 1990 Farm Bill.

What makes this farm bill so unique is the importance of issues that are traditionally outside farm legislation. I am, of course, referring to water, environmental, and trade issues. All of these represent special challenges to producers and to the formation of the 1990 Farm Bill.

Even though these issues are unqiue to farm legislation, as they have been discussed, we welcome their inclusion in the debate over this bill. We welcome them, particularly the water and environmental issues, because we believe that our experience in Arizona can give the Committee another perspective.

Water

In respect to water we understand the issue which confronts you as to whether farmers ought to receive benefits of both farm and reclamation programs. Certainly they have both contributed to the development of strong agricultural economy in the West when there was little else to fuel its development. We believe that changes of the kind being proposed would have serious implications for agriculture.

In this connection, there is one issue that we would like to address. As cotton producers we categorically reject the notion that farm or reclamation program benefits are creating surplus crops.

We have repeatedly asked the sponsors of the so-called "double dipping bills" to define what is meant by surplus crops. They haven't as yet.

It is our contention that the commercial cotton production systems here and abroad, consumes what we produce. It's that simple.

Arizona's Environmental Quality Act

Now, Mr. Chairman, I would like to take a few minutes to explain to you how Arizona is regulating the environmental impacts of farming.

In 1986, the State of Arizona enacted one of the toughest environmental laws in this country. Its passage established a new regulatory system and a re-organization of environmental responsibilities for agriculture.

In brief, the Environmental Quality Act of 1986 established:

- -a Groundwater Quality Permit Program which declared that all groundwater and groundwater aquifers should be pure enough for drinking.
- -Best Management Practice requirements to regulate application of nitrogen fertilizers
- -a Superfund
- -increased regulation of pesticides including stronger enforcement, licensing, and rules regarding application
- -increased regulation of worker safety relating to pesticides
- -and a Groundwater Protection Program to prevent contamination of groundwater by pesticides through chemical data review and cancellation procedures if pesticides are found in or near groundwater or that constitute a public health hazard.

And, finally, Mr. Chairman, the law provides for a private right of action in which a citizen can bring suit to compel the state to act when it is not in compliance with the terms and conditions of the Act.

The Arizona Environmental Quality Act is a tough act for agriculture.

The rules and requirements have raised the standard of compliance considerably higher than what existed prior to 1986.

While it is a tough Act, we believe it is a fair Act.

In recognition of the environment, the Arizona Cotton Growers Association has taken its own steps to mitigate the impacts of farming on the environment by:

- -reducing chemical use through eradication of the boll weevil
- -sponsoring research utilizing biotechnology to reduce chemical applications
- -demanding a reusable container system to lessen pesticide spills and leading containers into the groundwater aquifer system
- -developing a Statement of Principles to increase producer responsibility for his actions

We believe that Arizona's Environmental Quality Act makes a compelling case for limiting Federal involvement though yet another set of regulations.

In fact, much of Arizona's law is already based on Federal standards.

To enact, as a part of the 1990 Farm Bill, a new set of requirements to regulate agriculture impacts on the environment would be redundant and unnecessary.

And, clearly we strongly oppose any effort to link farm program benefits to environmental compliance. The criminal and civil penalties we face in Arizona are substantial enough to insure compliance.

We urge you and the Committee to take strong notice of what one state has done to regulate agricultural impacts on the environment.

Trade

Finally, Mr. Chairman, I would like to briefly mention our concerns with the trade reform.

We urge you and your colleagues to maintain the principles of competition in the Food Security Act of 1985 until there is verification of fair and competitive practices in world cotton production and trade.

In this regard, we want to emphasize the importance of continued access of U.S. cotton to world markets. Arizona cotton producers export nearly 85% of their crop to the Far East and any proposal which would impair our access would be of great concern to us as "trade sensitive" producers.

Conclusion

Mr. Chairman, this concludes our testimony. I would simply like to remind you of the importance of a stable and consistent cotton program, a program that is "competitive" and one that gives strong recognition to Arizona's strong agricultural environmental protection program.

We would be happy to answer any of your questions.

2/22/90

Senator PRYOR. We really thank you for your fine statement and we appreciate you being here.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman. I think there is unanimity about cross-compliance from all the witnesses that we have heard today. I was just asking my staff if there is any projection on the cost to the Government for eliminating cross-compliance. Do any of you have any notion about that? Would there be a cost to the Government? And if so, how much would it be? Have you done any economic analysis on it?

I think it is going to be minimal. That is what our assessment is. But I just wondered if there was any different opinions.

In trying to reduce the cost of the program, are there any suggestions about that? This is something we all kind of tend to gloss over and do not like to think about it because it is not a real happy subject. But if what I hear is right, we could have a budget resolution imposed on this committee that would require a reduction of cost of as much as $1.5 billion for farm programs.

If we had to cut the budget on the cotton program, where would be the least hurtful place? How would we do it in a way that would have minimal impact on producers? Anybody got any idea?

Mr. McLENDON. Hopefully, as I understand it, we are going to return to the U.S. Government about $240 million this year for the cotton program. If the things that we have enacted and the changes made to keep us competitive and moving the supply of cotton, keeping the price up where the deficiency payment will not be astronomical and we as farmers get out money out of the market, not from the Congress and the U.S. Government, hopefully keep the cost of the cotton program at a very minimum.

It certainly seems that all segments are willing to work and make adjustments to try to make cotton competitive and the price stay up enough and reasonable that our deficiency payments will not be exorbitant. Maybe what we have done in 1989 is just the beginning and we will continue to return funds to the Government.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Cochran.

Senator Heflin.

Senator HEFLIN. In addition to returning funds to the Government, it paid for the disaster bill in 1988. I mean, pretty well the cotton savings involved in that, as to budgetary accounting system, paid for the disaster bill which was close to $3.5 to $4 billion.

Actually, it would be interesting to see what the cotton program has cost the Government since 1985. When it first went up, you had some costs. Then you had, after marketing loans—you came back down substantially, went up a little bit and then came back down. I would say as compared to any other 5-year history period of programs, cotton, that it has been substantially less over that 5-year period. As compared to a great number of other commodities it would be substantially less. I think we ought to get some of those figures up. Maybe the Cotton Council can furnish us with figures on it.

But really from the viewpoint of savings, I think there has been substantial savings in the cotton program.

Mr. McLendon, let me ask you. Of course, your southern cotton growers are advocating a loan rate at 55 cents which is up 5 cents—there has been a floor. And your target price at 75 cents which is up about 2.1 over what it is now—cents.

First, I gather from your testimony and what I understand you have said previously that basically the 75 cents is based on because of inflationary costs and that. What is the reasoning for why you would like to see the loan floor raised from 50 cents to 55 cents?

Mr. McLENDON. Basically, like Mr. Brumfield mentioned earlier, it would provide the guarantee that we would know we are going to get. Because the target price does provide us a target to shoot at, but there is no guarantee we as producers are going to get the difference between the loan or the average price received by farmers in the United States in the target price. Because sometimes a producer sells his cotton right out of the field when he gets through ginning. And he might receive a substantially lower price than the average received for the marketing year.

So it does not guarantee—the target price does not guarantee us money. But the loan gives me a tool to go to my banker and tell him that I can put my cotton in the loan for 55 cents and receive some type of a—not a guarantee but a benchmark. It would possibly tend to reduce the margin between the loan and the target price. Right now it is about 22 cents. What we are proposing would reduce it to 20 cents, which could have a negative impact on the budget.

But under our present concept, the 55 cents would not hold cotton. It would not stop cotton from moving like under the 1981 farm bill did. So we just think that because of inflation the loan and the target price should be moved up.

Senator HEFLIN. What you have said suggests that there be some form of an escalator for the future. What would that be based on? Do you have any suggestions?

Mr. McLENDON. We have suggested the gross national produce price deflator. But some type of tool that would reflect the inflation for the things that I am buying as a farmer. I buy fertilizer and seed and equipment. So something that would tend to tie the price I am going to receive for the cotton in line with what I am paying for the goods and services I put into that crop. We suggested that. We are not tied to that, but some type of something that would be tied to the cost of production so we could over time have a reasonable increase in the target price.

Senator HEFLIN. Some of the criticisms several years back about escalators was the volatility of the land values. I mean, they were going up and down—primarily up. And if they were tied to that as an increased—but are basically land values stable in your various areas now? I might ask since there are groups from Arkansas and Arizona and Georgia and Mississippi, California and Texas. Are land values from farming, is land basically stable now, or are they subject to—I am just speaking of agricultural lands, not subdivisions, speculated land, but farmland. Are the prices basically stable on the cost of land now as opposed to what they were back several years ago?

Mr. Howie. It is not as volatile as it was, of course, and it was volatile down for a while. But they have bottomed out and slight increases in our area.

Mr. McGinnis. I would like to say, in Arkansas we went from a high, about $1,400 to $1,500 an acre, down in 1981, 1982 to about $500 or $600 an acre, and today they are back up in the $700 to $800 or $900 an acre range. I attribute that to the marketing loan. Folks are making money off of cotton and rice—they sure are, and I think that is the reason land prices are coming back up.

Mr. Verett. On the High Plains of Texas, Mr. Heflin, of course, land prices peaked in the late 1970's, early 1980's of around $1,200 to $1,300 an acre, some as high as $1,500 an acre. Then the bottom fell out just like Mr. McGinnis says, and it got down as low as, I would say there was some land that sold for $300 an acre. It has come back from that somewhat to, I would say an average of about $500 an acre now.

Senator Heflin. How about you, Mr. Accomazzo?

Mr. Accomazzo. Senator Heflin, it is a little hard to answer that question for Arizona because Arizona is a high growth State. We grew 30 percent from 1980 to 1990. We sure think our 1990 census will show that. So we have a tremendous pressure for our real estate by the investment community.

Another situation that we have far different than the South and particularly different from Texas in that 85 percent of our land is owned by either the Federal Government for its Indian reservations and forest land or the State of Arizona or the Bureau of Land Management. So if you turn that around, only 15 percent of the land in the total State is owned privately. So people take pride in owning land in Arizona and whether or not it makes any money farming tends not to make much difference.

We did though see a serious drop in prices. We have a very large farm in Arizona, probably one of the largest—the largest farm in Arizona is called Paloma Ranch that was just liquidated by an insurance company. I read a story about the farm, it sold for $8 million in 1957 and it sold for $34 million today; for about $1,000 an acre. I kind of figured up, the guy that sold it in 1957 made the better deal. So I just cannot hardly answer the question because of our growth.

Senator Heflin. Basically I was just—if there is some type of escalator clause, it may well be that land values and land costs would be excluded from it. It may still be such a volatile issue that it would not reflect true increases in cost of production. That was the purpose, I was just trying to see what some people feel that land values have risen, fallen and they are now stable and will stay stable. But that, I suppose, that topic is subject to a lot of individual and locality enhancements that could take place.

That is all I have.

Senator Pryor. Senator Heflin, thank you.

Bob McGinnis, let me ask you this one question. We have talked to a pretty wide range of subjects with this panel. What about the base building for cotton in a 2-year period? And if we go into more flexibility and some changes and tinkering with the program, should we keep that at 2? Should we go to 3? What should be a fair base building period for the cotton producer?

Mr. McGINNIS. Mr. Chairman, speaking as someone from Arkansas, we certainly hope to keep the 2-year base building because, as you know—maybe we are a little different from maybe some of the States that surround us, we had a lot of folks that got out of the cotton business and now this is a way they can get back in. It is our belief that cotton is one of the most profitable crops there are. We certainly hope that it would be kept at the 2-year base like the present bill. I realize that maybe you have to compromise sometimes, but certainly no more than 3 years.

Senator PRYOR. Any of your gentlemen have any other comments on——

Mr. McLENDON. We would, in the Southeast, would like it to be—right now we build it on the 2 years for somebody that does not have any base and 5 years for a farmer that has a base or a farm that has a base. We would like it to be consistent, not 2 and 5, but 2 and 3; we are not hung up on any one year. But we would like it to be the same for everybody. In our flexibility recommendations we requested 2 years. But the main thing is to be consistent. It is not fair the way it is done now. I think nobody has argued that it has been fair. But we have done it the way it was done.

In the Southeast we, at one time planted a lot of cotton. Our acreage declined dramatically in Alabama and Georgia and in the Carolinas. And now we are increasing our acreage, and we would like to continue to do that in the Southeast. It has been a real helpful thing. Land prices have increased a little bit from the bottom in south Alabama and south Georgia. We are a 100 percent rural area. Values are not influenced by anything but the ability of a farmer to make money.

Senator PRYOR. Any other comments from any of the other States on that?

Mr. ACCOMAZZO. I did not get to make comment to Senator Cochran's question about something that would decrease the cost of the program. Senator, I would like to take you back to our written testimony on page 3[11] where Arizona speaks of farming other crops outside of the program. A cotton base is a lot like your wife and home and kids, you really take good care of it because it is very important to you. So what we will find ourselves doing sometimes is going into the program when we would otherwise not want to for no other reason than to protect our base.

There are times when cotton prices are not what we would like for them to be. Maybe we would like to grow some other crops. So we find ourselves growing the cotton, participating in the program, costing the taxpayers some money to only accomplish one thing, and that is to preserve our base. That is why we are asking to let us certify to zero cotton base and plant some other crop outside the program and at no taxpayer expense.

Senator PRYOR. Thank you. Any further questions?

[No response.]

We want to thank this panel. We appreciate your comments and coming from a long way to bring us this information, your thoughts. This will be very helpful to the committee in our deliberations. Thank you all very much.

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[11] See p. 573.

We are going to call our final panel this afternoon, Mr. Fred Traylor, the president of the American Cotton Shippers Association; Mr. George Dunklin, the president and general manager of the Planters Cotton Oil Mill; Mr. Larry Warren, the president of the National Cotton Ginners Association; Mr. James W. Chesnutt, vice president, Cotton Committee Office of the American Textile Manufacturers Institute; and Mr. John Pucheu, Jr., chairman of the board of directors for Calcot, Limited, headquartered in Bakersfield, California.

Well gentlemen, we appreciate all of you being here. We are sorry you had to sit through the long afternoon of hearing, but for all of us I hope it has been informative. I know it has been for me.

We would ask, respectfully, that all of our witnesses this afternoon on this final panel summarize the body of their statement, and we will put the full text of the statement in the record at the appropriate point.

We will call on you, Mr. Traylor. Thank you very much for coming.

STATEMENT OF FRED TRAYLOR, PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION, WASHINGTON, DC

Mr. Traylor. Mr. Chairman, being from Texas but also having roots in Arkansas, as my mother was born and raised in Fort Smith, I have 6 aunts, 1 uncle and 22 cousins in Arkansas, I realize——

Senator Pryor. Are they all registered?

Mr. Traylor. I realize the Arkansas like for brevity. But since I am going to propose some conflicting differences from other testimony, I will try to be very brief, but I would like to go in a little more depth.

INTRODUCTION

I am Fred Traylor of Lubbock and Harligen, Texas. I appear today in my capacity as president of the American Cotton Shippers Association. Appearing with me today is Neal P. Gillen, vice president and general counsel, of Washington, D.C.; and Dee Gandy of Memphis, Tennessee, an economic advisor to the Committee on National Affairs.

The 1985 act has achieved the goal of assisting the production sector by providing increases in farm income through price protection from the level of the target price down to the level of the adjusted world price. A major flaw in the legislation provides producers with an incentive to store, not sell cotton, resulting in increased program costs and lost markets, and because the marketing loan was inconsistently administered, this also contributed to program costs and market losses.

CHANGES NECESSARY IN 1985 ACT

The American Cotton Shippers Association legislative policy proposals were utilized in formulating the legislative recommendations of the National Cotton Council of America. The specific recommendations we address today deal with issues on which the Council lacks agreement.

TERMS AND DURATION OF LOAN

It is critical to the success of the cotton marketing loan that the terms of the loan be 10 months with extensions at the discretion of the Secretary as market conditions dictate. Further, as a condition of price support, storage should be deducted at the outset of the loan to be consistent with the 40 year requirement imposed on producers of wheat, feed grains, oilseeds, dry edible peas and beans, and rice.[12]

As you know the marketing loan concept allows the buyer to redeem at the adjusted world price (AWP) when the AWP is below the loan rate. The producer, having the guarantee of the loan and the target price, is protected when the cotton is sold to U.S. and foreign mills at the AWP. In practice, the producer has received a substantial portion of the difference between the loan and the AWP. This has resulted in U.S. cotton being uncompetitive. Heavily influencing this process is the 18 month loan which allows the producer to withhold his cotton from the market in hope of a higher price. This legislative flaw has contributed to record carryover levels at significant costs to the Government. Only 12 months ago, loan entries reached the highest level in history, with 11.7 million bales in the loan. Were it not for crop difficulties in the U.S.S.R. and the People's Republic of China, our current carryover would be substantially higher.

We urge the Congress to amend the 1985 act so that extensions of the Government loan past the original 10-month term be at the discretion of the Secretary. The original intent of the Government loan was to facilitate the orderly marketing of the cotton crop into trade channels during the course of a marketing year. The practice of extending the loan by an additional 8 months contributes to the buildup of carryover stocks and is diametrically opposed to the marketing loan concept mandated by the 1985 act.

We would hope that the ongoing audit of the 18-month loan that is being conducted by the General Accounting Office is in agreement with our finding that the 18-month loan is contrary to the principal of the marketing loan and encourages storage rather than sales.

PRODUCTION OPPORTUNITIES

The decade ahead provides U.S. cotton producers the opportunity to increase their share of world consumption, an opportunity lost in the last decade, a decade of stop-and-go cotton policy. Let us seize this opportunity by providing producers with the flexibility to increase production, increase markets, and increase their share of profits from the market place. With down-side risks protected by the marketing loan, producers will be assured that their product will move to market, not storage, at competitive prices.

We commend Secretary Yeutter for his national crop acreage proposal. Its application to cotton will enable producers to strengthen their market positions and reduce their reliance on Government income.

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[12] See attachment A, "USDA Storage Policy," pp. 587 to 589.

We thank you for providing the opportunity for us to appear and present our views, and should you have any questions we will attempt to respond or provide a response for the record.

[The prepared statement, attachment A, USDA Storage Policy, attachments 1 and 2 of Mr. Traylor follow:]

Statement
of
American Cotton Shippers Association
on
The Cotton Section
of the
1990 Farm Bill
Presented To
Agricultural Production
and
Stabilization of Prices Subcommittee
Committee on Agriculture, Nutrition & Forestry
U.S. Senate
Washington, D.C.
March 1, 1990

Mr. Chairman, I am Fred Traylor of Lubbock and Harligen, Texas. I appear today in my capacity as President of the American Cotton Shippers Association. Appearing with me today is Neal P. Gillen, V.P. & General Counsel, of Washington, D.C., and Dee Gandy of Memphis, Tennessee, an economic advisor to the Committee on National Affairs.

We welcome this opportunity to present our views on the Cotton Section of the 1990 Farm Bill.

The 1985 Act has achieved the goal of assisting the production sector by providing increases in farm income through price protection from the level of the Target Price down to the level of the Adjusted World Price. A major flaw in the legislation provides producers with an incentive to store, not sell cotton, resulting in increased program costs and lost markets, and because the marketing loan was inconsistently administered this also contributed to program costs and market losses.

Changes Necessary in 1985 Act

In considering amendments to the 1985 Act we should adhere to the following principles:

1. Program cost must be reduced.
2. Production should be determined by supply and demand forces. The relationship between the target price, price support loan rate and the cost of production should not encourage over-production.
3. Neither the level of the price support loan or its duration should interfere with the orderly marketing of cotton.
4. U.S. cotton must be competitive in the world market.

ACSA's Legislative Policy Proposals were utilized in formulating the legislative recommendations of the National Cotton Council of America. The specific recommendations we address today deal with issues on which the Council lacks agreement.

Terms & Duration of Loan

It is critical to the success of the cotton marketing loan that the terms of the loan be 10 months with extensions at the discretion of the Secretary as market conditions dictate. Further, as a condition of price support, storage should be deducted at the outset of the loan to be consistent with the 40 year requirement imposed on producers of wheat, feed grains, oil seeds, dry edible peas and beans, and rice.*

As you know the Marketing Loan concept allows the buyer to redeem at the Adjusted world Price when the A.W.P. is below the loan rate. The producer having the guarantee of the loan and the target price is protected when the cotton is sold to U.S. and foreign mills at the AWP. In practice the producer has received a substantial portion of the difference between the loan and the AWP. This has resulted in U.S. cotton being uncompetitive. Heavily influencing this process is the 18 month loan which allows the producer to withhold his cotton from the market in hope of a higher price. This legislative flaw has contributed to record carryover levels at significant costs to the government. Only 12 months ago loan entries reached the highest level in history, with 11.7 million bales in the loan. Were it not for crop failures in the USSR and PRC our current carryover would be substantially higher.

We urge the Congress to amend the 1985 Act so that extensions of the government loan past the original 10 month term be at the discretion of the Secretary. The original intent of the government loan was to facilitate the orderly marketing of the cotton crop into trade channels during the course of a marketing year. The practice of extending the loan by an additional 8 months contributes to the buildup of carryover stocks and is diametrically opposed to the marketing loan concept mandated by the 1985 Act.

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* Attachment A. "USDA Storage Policy"

Production Opportunities

The decade ahead provides U.S. cotton producers the opportunity to increase their share of world consumption, an opportunity lost in the last decade, a decade of stop-and-go cotton policy. Let us seize this opportunity by providing producers with the flexibility to increase production, increase markets, and increase their share of profits from the market place. With down-side risks protected by the Marketing Loan producers will be assured that their product will move to market, not storage, at competitive prices.

We commend Secretary Yeutter for his NCA proposal. Its application to cotton will enable producers to strengthen their market positions and reduce their reliance on government income.

We thank you for providing us the opportunity to appear and present our views, and should you have any questions we will attempt to respond or provide a response for the record.

ATTACHMENT A

USDA Storage Policy

Since 1950, the Commodity Credit Corporation has, pursuant to the authority of Section 401(b) of the Agricultural Act of 1949, required that the producers of wheat, soybeans, flaxseed, corn, barley, oats, grain sorghum, rye, dry edible peas, dry edible beans and rice pay the cost of CCC storage during the price support period as a reasonable condition of price support.[1] It is only in the case of cotton that price-support loans are not subject to deductions for storage at the outset of the loan.

Currently producers of these commodities have the option of paying storage directly to the warehouse or elevator, unless the producer obtains a statement that the storing entity will not hold CCC liable for storage, or CCC will deduct the warehouse charges from the loan proceeds. In the repayment of the loan, under the latter option, the producer redeems at the reduced loan rate reflecting the prepayment of storage charges. If the producer defaults on the loan, storage charges are not refunded.

Agricultural Act of 1970 and Subsequent Legislation Removes Prior Legal Objections to Inconsistent Storage Policy

In February 1967, the General Accounting Office raised questions concerning the inconsistency of CCC storage policies. In an effort to justify these policies, the Administrator of the Agricultural Stabilization and Conservation Service secured an opinion from the Office of the General Counsel, United States Department of Agriculture which concluded that to require prepayment of storage changes as a condition for cotton producers to receive price support loans would be inconsistent with Section 103 (d)(3) of the Food and Agriculture Act of 1965 that cotton producers receive a minimum of 65% of parity.[2]

1/ Legal Opinion, February 1, 1950, Solicitor, United States Department of Agriculture, W. Carroll Hunter (Attachment No. 1).

2/ Legal Opinion, April 18, 1967, General Counsel, United States Department of Agriculture, John C. Bagwell (Attachment No. 2).

Conceding that the 1967 O.G.C. Opinion represented a policy position of that Administration, the policy was subsequently altered in 1969, however, when the Administrator of ASCS established a Loan Service Charge on Form A and G cotton loans, 3/ thus violating the spirit and substance of the 1967 Opinion, since the amount of the price support was thereby reduced below the statutory minimum.

The 1967 Opinion also discussed various objections of the Cotton Policy Staff—such as administrative burden and reeducation of cotton loan clerks, 4/ but these objections became moot as the 1970 Act and all subsequent legislation necessitated the establishment of new loan procedures. Program amendments are now common and in recent years are the rule not the exception.

The General Counsel also concluded that since there was no provision in the 1965 Act or previous statutes expressly authorizing or prohibiting the deduction of storage charges, "It is fair to conclude therefore, that Congress assumed that this policy [exempting cotton] would be continued." 5/ It is equally reasonable to conclude the opposite, namely that Congress was unaware of the Department's inconsistent policy and that it was giving its tacit approval to the deduction of storage as a condition of price support for all commodities consistent with the policy of the UDSA over the years for all commodities other than cotton.

Under the Agriculture Act of 1970, and all succeeding legislation there are no legal impediments to the deduction of storage charges as the minimum parity return requirement was discarded by Congress. Further, the advent of Gramm-Rudman-Hollings (GRH) 6/ negates any perception that minimum farm program payment guarantees are sacrosanct In 1986 all price support loans, deficiency and loan deficiency payments made pursuant to the Food Security Act of 1985 7/ were reduced by 4.3% pursuant to a sequestration required by G.R.H. 8/

3/ 34 F.R. 13827, August 29, 1969.
4/ Id at pages 6, 7 and 8.
5/ Id at page 4, paragraph 2.
6/ Balanced Budget & Emergency Deficit Control Act of 1985, P.L. 99-177, 2 USC 901.
7/ P.L. 99-198.
8/ Section 255, 2 USC 905, exempts only Social Security, certain Railroad Retirement and Veterans' Program benefits from the reduction in government program benefits mandated by GRH.

Congressional denouncement of the inconsistency in the application of storage policy made as long ago as 1966 is still pertinent to this discussion:

> "We are confronted with a double standard in the commodity price-support program. If I were a wheat farmer in Nebraska or Wyoming or South Dakota, Mr. Speaker, I would be able to place my crop along about this time of the year into the commodity loan program, but I would have to prepay my storage charges; I would not be eligible for the commodity loan programs, even if I complied with the acreage allotment and other regulations of the Department of Agriculture, if I did not prepay the storage charges. But if I were a cotton farmer, I would be able to place my entire cotton crop under the loan program without any prepayment of storage costs. In fact, I would be at a great economic disadvantage if I were to try to sell my crop on the market."
>
> "It is only -- and let me underscore the word 'only' -- in the case of cotton, that price-support loans are not subject to advance deductions of storage costs. It is this feature of the program, more than any other, that encourages the maximum use of the program of price supports, and ultimately the serious abuse of the program itself. Under present practices, the price-support loan becomes a speculative device, cost-free to the producer, but of great cost to the National Treasury." 9/

Uniform Storage Policy Will Standardize Loan Procedures and Reduce CCC Program Outlays

The establishment of a uniform storage policy will result in the standardization of the terms and conditions of price support loans enabling the producers of all commodities to receive equal benefits, make more efficient the operations of county ASCS offices administering numerous commodity programs with inconsistent provisions, discourage the long term storage of commodities, encourage the marketing of such commodities, and reduce the operating costs of the Commodity Credit Corporation.

9/ Statement of Representative Thompson, Congressional Record, Page H-28374, October 20, 1966.

ATTACHMENT 1

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF THE SOLICITOR
Washington 25, D. C.

February 1, 1950

TO	:	Board of Directors, Commodity Credit Corporation
FROM	:	Solicitor
SUBJECT:		Policy Regarding Payments to be Made by CCC for Storage and Related Charges on Commodities Supported Under 1950 Crop Price Support Programs by Means of Nonrecourse Loans and Purchase Agreements, CZ 162a

The attached docket contains a proposed authorization which would establish a policy to the effect that under 1950 crop price support programs, Commodity Credit Corporation will not make farm storage payments nor assume or pay for warehouse charges, other than receiving charges, accruing prior to the loan maturity date or the purchase agreement delivery date. The policy would apply to wheat, soybeans, flaxseed, corn, barley, oats, grain sorghum, rye, dry edible peas, dry edible beans and rice.

The proposal is based upon a determination set out in the authorization that, in view of the improved storage situation with respect to these commodities, it is both desirable and reasonable to require that the producer provide storage during the price support period. Section 401 (b) of the Agricultural Act of 1949 provides that except as otherwise provided in the Act, the amounts, terms, and conditions of price support operations shall be determined or approved by the Secretary, and the Act makes no provision with respect to the payment of storage charges. In view of the past practice of the Corporation of paying storage charges on basic commodities, other than rice, and the fact that many producers would not ordinarily incur storage charges in marketing their crops, it is arguable that requiring the producer to pay such charges is an improper device to reduce the support level below the minimum prescribed by law. However, in the light of the broad authority granted to the Secretary under section 401(b) of the Act, we believe that if it is administratively determined to be a reasonable condition of price support the proposed policy will be within such authority and free from legal objection.

An appropriate form of resolution is attached.

/s/ W. Carroll Hunter

Attachments

ATTACHMENT 2

UNITED STATES DEPARTMENT OF AGRICULTURE
Office Of The General Counsel
Washington, D. C. 20250

April 18, 1967

To: Horace D. Godfrey, Administrator, ASCS

From: John C. Bagwell, General Counsel

Subject: Requiring Producers to Pay Storage Charges on Loan Cotton

The opinion of this office has been requested on the legal questions raised in the letter to you from the Assistant Director of the Civil Division of the General Accounting Office, dated February 24, 1967.

I

The first question raised in this letter is whether, in the opinion of this office, Commodity Credit Corporation would be required to increase the price support level on cotton if it required producers to assume warehouse storage costs on cotton while it is under loan. As indicated in this letter, it has always been the policy of Commodity Credit Corporation to make loans on warehouse-stored cotton without requiring the prepayment of storage charges through the loan maturity date or the deduction of these charges from the amounts of the loans. If a producer were to be required to assume these storage charges, the net amount he would receive under the loan would, on the average, be reduced slightly over a half cent per pound (on the basis of present storage rates).

In making price support available on warehouse-stored grain, soybeans, dry edible peas and beans, and rice, CCC has, for a number of years, deducted storage charges through the loan maturity dates or purchase agreement delivery dates if the producers had not prepaid such charges. Where such commodities were farm-stored, the producer has been required to make such storage available free of charge through the loan maturity dates or purchase agreement delivery dates. This policy was established by Commodity Credit Corporation Docket CZ 162a, approved by the Secretary of Agriculture on February 6, 1950.

In our memorandum of February 1, 1950, with respect to Docket CZ 162a, this office pointed out that, in view of the past practice of Commodity Credit Corporation of paying storage charges on most basic commodities and the fact that many producers would not ordinarily incur storage charges in marketing their crops, it was arguable that requiring a producer to pay such charges as a condition of obtaining price support would be an improper device to reduce the support level below the minimum prescribed by law. We also noted, however, that section 401 (b) of the recently enacted Agricultural Act of 1949 provided that, except as otherwise provided in that Act, the amounts, terms, and conditions of price support operations should be determined or approved by the Secretary and that the Act made no provision with respect to the payment of storage charges. Accordingly, in the light of the broad authority thus granted to the Secretary, we expressed the view that the proposed policy would be within such authority and free from legal objection if it was administratively determined to be a reasonable condition of price support.

By approving Docket CZ 162a, the Board of Directors and the Secretary of Agriculture determined that requiring producers to bear such storage costs on the commodities specified in the docket was a desirable and reasonable condition of price support. This policy has been consistently followed by Commodity Credit Corporation in its price support programs with respect to these commodities for the last 17 years, during which the price support provisions of the Act have been amended on a number of occasions without any question being raised as to this policy.

Price support is required to be made available on the 1966 to 1969 crops of cotton pursuant to section 103 (d) of the Agricultural Act of 1949, as added by the Food and Agriculture Act of 1965, which provides, in part, as follows:

> (d) (1) Notwithstanding any other provision of this Act, if producers have not disapproved marketing quotas, price support and diversion payments shall be made available for the 1966, 1967, 1968 and 1969 crops of upland cotton as provided in this subsection.
>
> (2) Price support for each such crop of upland cotton shall be made available to cooperators through loans at such level, not exceeding a level which will reflect for Middling one-inch upland cotton at average location

> in the United States 90 per centum of the estimated average world market price for Middling one-inch upland cotton for the marketing year for such crop, as the Secretary determines will provide orderly marketing of cotton during the harvest season and will retain an adequate share of the world market for cotton produced in the United States taking into consideration the factors specified in section 401 (b) of this Act: Provided, That the national average loan rate for the 1966 crop shall reflect 21 cents per pound for Middling one-inch upland cotton.
>
> (3) The Secretary also shall provide additional price support for each such crop through payments in cash or in kind to cooperators at a rate not less than 9 cents per pound: Provided, That the rate shall be such that the amount obtained by ---
>
> > (i) multiplying the rate by the farm domestic acreage allotment percentage, and
> >
> > (ii) dividing the product thus obtained by the cooperator percentage established under section 408 (b), and
> >
> > (iii) adding the result thus obtained to the national average loan rate
>
> shall not be less than 65 per centum or more than 90 per centum of the parity price for cotton as of the month in which the payment rate provided for by this paragraph is announced. . . .

Under section 103(d), the total of the loan rate and the adjusted payment rate is to be not less than 65 nor more than 90 per centum of the cotton parity price. For the 1967 crop of cotton (as for the 1966 crop), the announced national average loan rate and adjusted payment rate total almost exactly 65 percent of the cotton parity price for the month in which these rates were announced.

While it may be argued that, under the broad authority granted to the Secretary by section 401(b) of the Agricultural Act of 1949, the Secretary could require cotton producers to assume storage charges on cotton through the loan period if he determined this to be a reasonable condition of price support, it is the opinion of this office that, where the effect of the requirement would be to reduce the cotton producer's return below the minimum level required by statute, the imposition of such a requirement would constitute an improper device to reduce price support to producers below the statutory minimum. The considerations which have led us to this opinion are discussed below.

The policy which Commodity Credit Corporation has always followed with respect to storage charges in making loans to cotton producers is in keeping with trade practice on sales of cotton by producers, as pointed out in the letter of December 3, 1965, on this subject from the Cotton Policy Staff to the General Accounting Office. The recent letter from the General Accounting Office questions this, stating that it has been informed by buyers in the Memphis area that it is the practice of the trade for the seller to assume the cost of storage until his cotton is sold and that the Trading Rules of the Memphis Cotton Exchange contain a provision for deduction by the seller of accrued storage charges from the amount of his invoice. While this is the normal trade practice in sales between members of the cotton trade, we are informed by the Director of the Cotton Policy Staff, ASCS, that producers in this and other areas do not ordinarily pay any storage charges either when they place their cotton in storage or when they sell their cotton. The effect, therefore, of imposing the proposed requirement would be to reduce the return to the cotton producers by the amount of the storage charges that must be paid by the producers.

Substantial changes in the statutory provisions relating to price support on cotton were made by the 1965 Act. There is no provision in that Act (or previous statutes) expressly authorizing or prohibiting the proposed requirement. Congress, however, established the 65 percent of parity minimum in the light of the fact that, during the more than 30 years that price support has been available on cotton, CCC has followed the consistent policy of not requiring producers to pay storage in connection with cotton being placed under loan. It is fair to conclude, therefore, that Congress assumed that this policy would be continued.

The parity price of cotton is computed upon the basis of the average of prices received by producers for their cotton during the preceding 10 years. We are informed by B. Ralph Stauber, Chief of the Agricultural Price Statistics Branch, SRS, that this Department uses the amounts reported as having been received by farmers upon the sale of their cotton in this computation. Accordingly, since cotton is ordinarily sold by the producers subject to storage charges from the date of storage, the parity prices determined by this Department for cotton are substantially lower than if producers customarily sold their cotton with storage charges already paid through the end of the marketing year and received correspondingly higher prices from buyers. It may reasonably be contended that, in requiring that producers receive 65 percent of parity price support, the statute contemplated that cotton would be received under the loan program on the same basis as it is accepted by buyers under the sales upon which parity computations are based.

In view of the differences between the marketing practices for various commodities and other factors, Commodity Credit Corporation has not found it desirable or practicable to have uniform program requirements for all commodities. For example, most of the grain commodities covered by Docket CZ 162a are customarily stored on the farm and, therefore, not subject to warehouse storage charges. Accordingly, it can be argued that it was a reasonable condition to establish as a uniform requirement for these commodities that those who elect to store in public warehouses rather than on the farm must bear the resulting storage costs.

Unlike grain, cotton is almost never stored on the farm. Since cotton is normally stored in baled form after ginning, storing bales on the farm would involve a back haul from the gin. It would usually be necessary for the producer to move farm-stored cotton to a warehouse in order to sell it, and the warehouse would ordinarily be closer to the gin than to the farm. From a practical point of view, a cotton producer cannot be expected to store cotton on the farm, and thus it cannot be said, as in the case of grain, that the producer should bear the cost of warehouse storage because this cost is due to his election to store in the warehouse rather than on the farm.

For the reasons discussed above, it is the opinion of this office that requiring producers to assume storage charges on cotton through the loan period would constitute an improper device to reduce price support to producers below the statutory minimum where the amount of the storage charges would reduce the total amounts received by producers below the statutory minimum. If the level of support exceeds the statutory minimum by more than the storage cost per pound during the loan period, the imposition of the requirement that producers bear storage cost on loan cotton until the maturity date of the loans would not have the effect of reducing the net price support to producers below the statutory minimum, and the imposition of this requirement would, we believe, be within the broad authority granted to the Secretary under section 401(b).

Even assuming, arguendo, that there were no legal impediments to requiring cotton producers to prepay storage charges, the question of whether to impose the requirement under the authority of section 401(b) would be a matter within the discretion of the Secretary. In this connection, in addition to some of the reasons already discussed, there appear to be additional reasons which would militate against the imposition of this requirement.

We are informed by the Director of the Cotton Policy Staff that such a change in the cotton loan program would add greatly to the administrative difficulties of operating the program. Warehouse-stored grain on which a producer applies for a loan is usually covered by a single warehouse receipt to which a uniform storage rate is applicable, so that there is little difficulty or expense involved in deducting storage charges at the time a loan is made on such grain if storage charges have not been prepaid by the producer. On the other hand, each bale of cotton is represented by an individual warehouse receipt, and the bales on which a producer requests a loan may have been placed in storage on many different dates, so that the number of months for which storage is to be deducted will vary from bale to bale. Moreover, the monthly storage charge can vary even among warehouses in the same county, depending on whether the warehouseman's tariff rate is less than the "uniform rate," whether the warehouse has a compress, and whether the cotton has been or is to be reconcentrated. Accordingly, the computation of the amounts to be deducted for storage of loan cotton would involve considerable time and expense.

The published tariffs of cotton warehouses contain provisions for collection of a "receiving charge" on each bale accepted for storage. This charge, which will usually run from 75 cents to $1.50 per bale, or about two or four times the average monthly storage rate, is ordinarily paid by producers when they place their cotton in storage (although a few warehousemen may allow it to run as a lien against the cotton or waive collection of this charge on some occasions as an inducement to storage in their warehouses). In accordance with the custom, Commodity Credit Corporation requires each producer desiring to obtain a loan on his cotton to pay the receiving charge or agree to the deduction of this charge from the loan proceeds. The payment of such a charge by producers is not required in the case of grain loans, however. Thus, in this respect, cotton producers are afforded less favored treatment by Commodity Credit Corporation than grain producers, and the difference in treatment between grain and cotton producers who obtain loans is not as disparate as might appear. If cotton producers were to be required to prepay storage charges in addition, they would clearly be in a less favorable position than grain producers.

II

The letter from the General Accounting Office also raises a question as to the legal basis for the payment by Commodity Credit Corporation of storage charges on loan cotton which accrued before the cotton was actually pledged as collateral for a price support loan.

It has always been the practice of Commodity Credit Corporation to make loans to producers on cotton without requiring the producers to pay storage charges accruing prior to the dates of the loans or deducting these charges from the amounts of the loans. This practice is also in accord with the normal practice followed by producers in selling their cotton, since producers selling warehouse-stored cotton ordinarily do not pay storage charges up to the date of sale. What has been said above with respect to requiring cotton producers to pay storage charges to the maturity date of the loans would, therefore, apply equally to requiring them to pay storage charges up to the time the cotton goes under loan, and it is the opinion of this office that producers may not be required to bear such storage charges where this would reduce the total amounts received by producers below the statutory minimum.

Even assuming, arguendo, that there were no legal impediments to requiring producers to prepay such charges, the question of whether to impose the requirement under the authority of section 401(b) would be a matter within the descretion of the Secretary. In this connection, in addition to some of the reasons discussed above, there appear to be additional reasons which would militate against the imposition of this requirement.

The practice which has always been followed under the Cotton Loan Program results in all producers being treated alike in that all producers receive the same amount of price support regardless of the time of harvest or the time they obtain their loans. This practice also results in Commodity Credit Corporation being subject to storage charges for exactly the same period on all unredeemed loan cotton which was placed in storage on the same day, regardless of the dates the loans were made. The Corporation pays such charges, of course, only on the cotton which it takes over on maturity of the loans.

Requiring producers to pay storage charges through the dates they obtain loans could lead to the making of additional loans on cotton by Commodity Credit Corporation, since producers who do not sell their cotton immediately would find it advantageous to obtain loans on their cotton from Commodity Credit Corporation as soon as possible after placing their cotton in storage in order to avoid paying additional storage charges, instead of obtaining such loans only when they are certain that they will be unable to sell their cotton at an acceptable price. In this connection, there is for consideration the Statement of Managers on the part of the House in the Conference Report on the Food and Agriculture Act of 1965. It is pointed out in this statement (pp. 33-34) that the new programs for cotton authorized in this Act contemplate reduced use of the Cotton Loan Program and that most of the annual production of cotton would be expected to move directly to market through normal commercial trade channels, with Commodity Credit Corporation having a substantially reduced role in making loans and merchandising cotton.

We are also informed by the Director of the Cotton Policy Staff that requiring producers to assume storage charges through the dates of the loans would greatly increase the difficulties of operating the program. CCC would experience all of the difficulties in computations which would be involved in deducting storage charges from the dates of storage through the maturity of the loans. In addition, loan clerks would find it difficult to determine with certainty the dates through which storage charges should be assumed by producers. This would be particularly true with respect to loan documents prepared near the end of a month, since the loans might be disbursed either in that month or in the following month. Accordingly, the computation of the amounts to be deducted from the loans for upaid storage charges would involve a great deal of extra time and expense as compared with the present program.

/s/

John C. Bagwell

Senator **Pryor.** Thank you, Mr. Traylor, we appreciate your comments. Mr. George Dunklin. We appreciate you being here, George.

Thad, It says here that Mr. Dunklin is from Memphis, Tennessee. He is actually from Pine Bluff, Arkansas. He is one of our fine citizens, there, and we appreciate George being here, representing the Planters Cotton Oil Mill.

STATEMENT OF GEORGE DUNKLIN, PRESIDENT AND GENERAL MANAGER, PLANTERS COTTON OIL MILL, NATIONAL COTTONSEED PRODUCTS ASSOCIATION, MEMPHIS, TN

Mr. **Dunklin.** Thank you very much, Senator.

INTRODUCTION

I am president and general manager of Planters Cotton Oil Mill of Pine Bluff, Arkansas. My company is a grower and ginner-owned cooperative engaged in the crushing and marketing of cottonseed and cottonseed products.

I am appearing today on behalf of the National Cottonseed Products Association, a nonprofit trade association in Memphis, Tennessee. This association represents about 95 percent of the producers and refiners of cottonseed oil and handles the large majority of all cottonseed in the United States.

TWO ISSUES THAT HAVE PARTICULAR IMPORTANCE FOR PRODUCERS AND CRUSHERS OF COTTONSEED

Among the broad issues being considered today, I would like to elaborate on two that have particular importance for producers and crushers of cottonseed.

First is the potential impact on the value of cottonseed and cottonseed products in case marketing loans or similar programs for U.S. oilseeds are enacted. Although cottonseed derives from the cotton plant, economic value is determined by U.S. and world oilseed markets, including soybeans, sunflower, rape and palm. In general, programs that subsidize production and exports of oilseed products have direct implications for the market value of cottonseed. In particular, we are concerned about the potential impact on cottonseed products if programs are enacted that would allow domestic prices for vegetable oils and proteins to decline to very low levels.

We consider it vital that the 1990 farm bill contain meaningful provisions that mandate protection for cottonseed product markets from the adverse effects of Government programs designed to enhance production of, or subsidize the markets for, other oilseeds or their products.

The second concern that I would like to discuss relates to the existing programs that were designed to provide vegetable oils the means to compete in world markets.

As recently as 1981, more than one-half of the annual production of our cottonseed oil was exported, mostly for free dollars. Exports have steadily declined in the 1980's, and today account for less than one-third of the total usage.

OUR INABILITY TO COMPETE IN EXPORT MARKETS HAS CONTRIBUTED TO ECONOMIC PROBLEMS FOR OUR AMERICAN COTTONSEED CRUSHERS

Our inability to compete in export markets has contributed to economic problems for our American cottonseed crushers, resulting in a substantial number of plant closings and consolidations. In 1974, Mr. Chairman, there were 109 cotton oil mills in the United States. Today, there are only, I believe, 43 operating.

Senator PRYOR. George, what year was that? Since 1979?

Mr. DUNKLIN. Since 1974 until today, it has declined from 109 to only 43.

While cottonseed oil is eligible for export under the Export Enhancement Program, the countries targeted by USDA so far have been traditional importers of other oils, mostly soybean, sunflower and rapeseed oils, primarily from the EEC. To date, less than 3 percent of the total sales under the program have been for cottonseed oil.

SCOAP, COAP, AND SOAP

To correct this problem, as you mentioned before or brought up, Senator Pryor, Congress enacted the SCOAP program, the Sunflower, Cottonseed Oil Assistance Program in 1988, which provided $20 million for use by September 30, 1990, to facilitate exports of both oils by enabling exporters to compete in export markets at world prices. Another $30 million was provided in 1989 for use by September 30, 1991.

Unfortunately, administrative restrictions imposed on eligibility requirements for export sales have hampered the SCOAP subprograms, COAP and SOAP, to the point of total ineffectiveness. No sales have been declared eligible under either program, despite repeated requests for approval.

COAP is critically important to cottonseed oil exports because foreign markets are much more limited than for sunflower and soybean oils. Effective operation of the program is needed to help U.S. cottonseed oil exporters compete in foreign markets.

WE CONSIDER IT URGENT THAT CURRENT PROGRAMS BE REVIEWED AND FUTURE PROGRAMS DESIGNED TO ENSURE THAT THEY ARE UTILIZED TO FACILITATE EXPORTS

Mr. Chairman, we consider it urgent that current programs be reviewed and future programs designed to ensure that they are utilized to facilitate exports in a timely manner, as originally intended. Of particular importance to us is COAP, which is the most important export program for cottonseed producers and crushers but the least effective.

Thank you, Mr. Chairman, for the opportunity to state the views of our industry on these important matters.

[The prepared statement of Mr. Dunklin follows:]

Testimony of
George H. Dunklin
Before the
Senate Subcommittee on Agricultural Production
and Stabilization of Prices
March 1, 1990

My name is George H. Dunklin. I am President and General Manager of Planters Cotton Oil Mill of Pine Bluff, Arkansas. My company is a grower and ginner-owned cooperative engaged in the crushing and marketing of cottonseed and cottonseed products.

I am appearing today on behalf of the National Cottonseed Products Association, a non-profit trade association founded in 1897 with headquarters in Memphis, Tennessee. Association members include more than 95% of the producers and refiners of cottonseed oil and handle the large majority of cottonseed produced in the United States.

Mr. Chairman, it is vital to all segments of the cotton industry that adequate supplies of cotton and cottonseed be consistently available to preserve the long-range continuity of markets. It is equally important that competitive balance be maintained between domestic and export outlets.

Among the broad range of issues being considered today, I would like to elaborate on two that have particular importance for producers and crushers of cottonseed.

First is the potential impact on the value of cottonseed and cottonseed products in case marketing loans or similar programs for US oilseeds are enacted. Although cottonseed derives from the cotton plant, economic value is determined by US and world oilseed markets, including soybeans, sunflower, rape and palm. In general, programs that subsidize production and exports of oilseed products have direct implications for the market value of cottonseed. In particular, we are concerned about the potential impact on cottonseed products if programs are enacted that would allow domestic prices for vegetable oils and proteins to decline to very low levels.

Mr. Chairman, we consider it vital that the 1990 Farm Bill contain meaningful provisions that mandate protection for cottonseed product markets from the adverse effects of government programs designed to enhance production of, or subsidize the markets for, other oilseeds or their products.

Our second concern relates to existing programs that were designed to provide vegetable oils the means to compete in export markets.

As recently as 1981, more than one-half of the annual production of cottonseed oil was exported, mostly for free dollars. Exports have steadily dwindled in the 1980's, and accounted for less than one-third of total usage in the 1988/89 season. More significantly, about 60% of the exports last year involved either PL480 or GSM financing.

The inability to compete in export markets has contributed to economic problems for US cottonseed crushers, resulting in a substantial number of plant closings and consolidations. The number of active mills declined by one-third between 1981 and 1989. Employment declined by 50% between 1982 and 1987 and the trend is continuing.

The crushing industry is vital to cotton producers because it provides the major market for seed. Continued decimation of the industry would adversely impact cotton growers and others.

While cottonseed oil is eligible for export under the Export Enhancement Program, the countries targeted by USDA so far have been traditional importers of other oils, mostly soybean, sunflower and rapeseed oils, primarily from the EEC. To date, less than 3% of total sales under the program have been for cottonseed oil.

To correct this problem, Congress enacted the Sunflower, Cottonseed Oil Assistance Program (SCOAP) in 1988, providing $20 million for use by September 30, 1990, to facilitate exports of both oils by enabling exporters to compete in export markets at world prices. Another $30 was provided in 1989 for use by September 30, 1991.

Unfortunately, administrative restrictions imposed on eligibility requirements for export sales have hampered the SCOAP sub-programs, COAP and SOAP, to the point of ineffectiveness. No sales have been declared eligible under either program, despite repeated requests for approval.

COAP is critically important to cottonseed oil exports because foreign markets are much more limited than for sunflower and soybean oils. Effective operation of the program is needed to help US cottonseed oil exporters compete in foreign markets.

Mr. Chairman, we consider it urgent that current programs be reviewed and future programs designed to ensure that they are utilized to facilitate exports in a timely manner as originally intended. Of particular importance to us is COAP, which is the most important export program for cottonseed producers and crushers but the least effective.

Thank you, Mr. Chairman, for the opportunity to state the views of our industry on these important matters.

U.S. EXPORTS OF COTTONSEED OIL

YEAR BEGINNING OCTOBER 1	MILLION POUNDS	PERCENT OF TOTAL USAGE
1974	685	52.3
1975	500	52.6
1976	890	56.4
1977	758	52.4
1978	661	51.6
1979	728	52.5
1980	710	57.4
1981	847	55.5
1982	546	47.5
1983	303	36.3
1984	433	38.8
1985	442	40.5
1986	214	27.2
1987	409	35.3
1988	406	32.3

ACTIVE COTTONSEED OIL MILLS

1974	109
1990	45

Senator PRYOR. Thank you very, very much for your statement. Mr. Warren.

STATEMENT OF LARRY WARREN, PRESIDENT, NATIONAL COTTON GINNERS ASSOCIATION, MEMPHIS, TN

INTRODUCTION

Mr. WARREN. Mr. Chairman, Senator Cochran, my name is Larry Warren. I am a cotton ginner from Phoenix, Arizona, presently serving as President of the National Cotton Ginners Association, on whose behalf I appear today. The National Cotton Ginners Association, in concert with its eight State and regional member associations, represents the U.S. cotton ginning industry on all national legislative and regulatory issues.

POSITION OF THE U.S. COTTON GINNING INDUSTRY, WITH REGARD TO THE COTTON TITLE OF THE NEW FARM BILL

The position of the U.S. cotton ginning industry, with regard to the cotton title of the new farm bill, is for the continuation, with slight modifications, of the primary concepts contained in the Food Security Act of 1985.

THE COTTON GINNING INDUSTRY HAS FARED WELL WITH THE PRESENT COTTON TITLE

As a background, the cotton ginning industry has fared well with the present cotton title, because it has helped stabilize cotton production and grower income while providing competitively priced cotton for our textile customers. There are several specific provisions I would like to address, however.

NEW LEGISLATION AND SPECIFIC PROVISIONS

New legislation should continue to include provisions for producer income protection through the target price concept, which we feel should not be below the level in the current act, but be adjusted for inflation and generally tied to the national average cost of production.

We support the continuation of the current loan formula with a 50-cent minimum. In addition, the availability of a nonrecourse loan and the optional provision for an extension are essential for orderly cotton marketing and for producer income protection, and thus should be a part of any new farm legislation.

Likewise, we recognize that the marketing loan provision in the current act has been an essential component in keeping U.S. cotton competitive and we support its continuation with the cotton industry's recommended changes to improve its effectiveness.

To maintain an adequate supply of U.S. cotton to service the needs of our textile customers, we also support the cotton industry's recommendation that acreage reduction programs not exceed 25 percent and should be based on a stock-to-use ratio.

In addition, National Cotton Ginners supports the provision of a one-half ARP program that would be available at the producer's option, instead of the discretion of the Department of Agriculture.

The price of cottonseed has a direct impact on both producer and ginner income. Accordingly, in the event Congress implements a program for soybeans or other oilseed crops, which could adversely affect cottonseed prices, National Ginners asks that the new farm bill contain provisions for price protection of cottonseed.

CONCLUSION

In conclusion, the U.S. cotton ginning industry has been pleased with the cotton title to the Food Security Act of 1985. A continuation of its major provisions, with the minor modifications we have proposed, will help achieve our industry's future goals.

We thank you, and the members of the subcommittee, for the opportunity to address you today. Thank you very much.

[The prepared statement of Mr. Warren can be found on pp. 609 to 612.]

Senator COCHRAN [presiding]. Thank you, Mr. Warren.

Mr. Chesnutt, you may proceed.

STATEMENT OF JAMES W. CHESNUTT, MEMBER, COTTON COMMITTEE, AMERICAN TEXTILE MANUFACTURERS INSTITUTE, WASHINGTON, DC

Mr. CHESNUTT. Thank you, Senator Cochran.

INTRODUCTION

My name is Jim Chesnutt. I am vice president of materials management for Harriet and Henderson Yarns headquartered in Henderson, North Carolina. I currently serve on the board of directors of the National Cotton Council, and I am a current member and former vice chairman of the Cotton Committee of the American Textile Manufacturers Institute (ATMI). I appreciate the opportunity to present testimony today on behalf of our industry.

The ATMI members account for some 90 percent of the cotton spindles in place in the United States, and the vast majority of raw cotton consumed in the United States, annually about 8 million bales.

We are at the end of the chain, and add the final value to the product produced by our good friends, the cotton producers. We are the American cotton farmers' biggest and best customer.

ATMI is involved in numerous other aspects of cotton, such as bale packaging, rules of buying and selling, the delivery of cotton and other factors impacting raw cotton in the United States.

THE PRIMARY PURPOSE OF MY STATEMENT

The primary purpose of my statement this afternoon, however, is to focus on an issue of extremely high priority within ATMI and of highest importance to the economic well-being of U.S. textile manufacturers, that is price competitiveness of U.S. raw cotton. You have heard that over and over again today, from almost every person who has testified, that in order for this industry to continue to be great and to grow, that we must make certain that cotton produced in the United States is competitive with that produced in other parts of the world.

This concern is particularly relevant to textile mills when it is recognized that, for the most part, they must by law rely on domestic cotton producers to supply that fiber. In other words, U.S. textile mills are essentially prohibited by law from purchasing raw cotton grown anywhere but in the United States.

Couple this with the fact that, in 1988 and for part of 1989, mills were required to pay higher prices than our foreign competitors paid for their cotton, then our priority interest in resolving this problem is understandable. During this period, U.S. mills are estimated to have paid more than $100 million more for their cotton than overseas mills paid.

ASSURING THE PRICE COMPETITIVENESS OF RAW COTTON

Assuring the price competitiveness of raw cotton, as was called for in the 1985 farm legislation, has been the issue that ATMI and the cotton industry have struggled with for more than a year. I am pleased to tell this subcommittee that agreement has been reached and supported by all seven sectors of the cotton industry on this issue. Delegates to the National Cotton Council annual convention last month ratified this agreement as the industry's position on competitiveness for inclusion in new farm legislation and future cotton programs.

Details were given to you earlier by the Cotton Council president, Tommy Funk, and I will not repeat those in my testimony at this time.

ADEQUATE SUPPLY

There is another item that I think we should talk about today, and that is an adequate supply. Again, you have heard that the National Cotton Council has agreed that carryover levels should be established at either 4 million bales or 33 percent of consumption (a stocks-to-use ratio), whichever is higher. We believe this target will help maintain that adequate supply.

Mr. Chairman, there are other aspects of the Federal cotton program which are important, and I will again remind you, the members of the subcommittee, that we do have a unified position regarding the recommendations for new farm legislation.

APPROVE AN AMENDMENT IN THE NEW FARM BILL TO SECTION 204 OF THE AGRICULTURAL ACT OF 1956

Finally, we would like to recommend that the subcommittee approve an amendment in the new farm bill to section 204 of the Agricultural Act of 1956. This is an amendment supported by the National Cotton Council and advocated by ATMI. As you know, section 204 contains the basic authority for the U.S. textile program. But that authority is contingent on there being a multilateral agreement in place. The U.S. Government has proposed as its position in the Uruguay round, that the Multifiber Arrangement (MFA), which sets guidelines for world-wide textile trade, be phased out. The need, therefore, for such an amendment comes as a result of the U.S. Government's position on textiles in this new trade round to phase out the MFA. In order for the Government to continue to issue regulations governing the textile program in the absence of the MFA, a change in section 204 is needed to simply say the President has the authority to do so in the absence of a multilateral agreement.

I thank you for the opportunity to present this testimony on behalf of our industry, and I want to thank the two of you for your continued support of the U.S. textile industry. We are appreciative for your efforts on trade legislation and on cotton matters and other issues that have faced our industry. Thank you.

[The prepared statement of Mr. Chesnutt can be found on pp. 613 to 615.]

Senator **Pryor** [presiding]. Mr. Chesnutt, thank you. We appreciate it. Mr. Pucheu.

STATEMENT OF JOHN PUCHEU, JR., PRESIDENT, CALCOT, LTD., BAKERSFIELD, CA

INTRODUCTION

Mr. **Pucheu**. Mr. Chairman, I would like to thank you for the opportunity to appear before you and your committee this afternoon. I am a farmer in Fresno County in California, and I also serve as chairman of the board of directors of Calcot, Limited.

Calcot is a grower-owned marketing cooperative representing cotton growers in Arizona and California. We have approximately 3,400 members and we market approximately 2 million bales of cotton annually.

Most of what I have to say has already been covered by the other producer witnesses that have testified today. I do not know if it is an advantage or a disadvantage being last on your witness list, but some of the key elements I would just like to go over.

KEY ELEMENTS

We very strongly support the 18 month nonrecourse loan. We think that is absolutely essential for maintaining producer income. We must assure competitive prices for our U.S. mills through the assured competitiveness program that has been recently adopted by the National Cotton Council. We believe that we, as growers, can only do well if our primary customers are doing well.

We believe flexibility is best addressed along the lines of your program and Senator Cochran's. Also, we believe that growers in the West, or growers anywhere, should be able to certify zero planting and be able to protect their bases. This is very important for our southern California growers and our Arizona growers.

Another important point for growers in the West is we need early announcement on the program. We would like a November 1 announcement date, with a second announcement in January. The National Cotton Council has this dual announcement program.

Also, we believe the grower funded research and promotion program is extremely important. We need the uniform, mandatory assessment. We have been waiting for this for several years, and it just is not happening, and we really, really need this.

Lastly, we believe the 1985 farm program has worked very well and we would like to basically have a continuation of that program.

LAND VALUES

Senator Heflin, who is not here, was asking about land values and since there was no producers on the producer panel at that time, I would just like to say what has happened in our area. In the early 1980's, probably the average prices for field cropland on the west side of Fresno County were approximately $3,500 an acre. This dropped down to about $1,800 an acre in the mid-1980's and has recovered back up into the range of say $2,600 an acre now.

I would like to thank you for being able to appear before your committee today. Thank you.

[The prepared statements of Mr. Warren, Mr. Chesnutt, and Mr. Pucheu, Jr. follow:]

TESTIMONY

Larry Warren, President
National Cotton Ginners Association
Before the Senate Subcommittee on Agricultural Production
and Stabilization of Prices
March 1, 1990

Mr. Chairman, members of the Subcommittee, I am Larry Warren, a cotton ginner from Phoenix, Arizona, presently serving as President of the National Cotton Ginners Association, on whose behalf I appear today. The National Cotton Ginners Association, in concert with its eight state and regional member associations, represents the U. S. cotton ginning industry on all national legislative and regulatory issues.

The position of the U. S. cotton ginning industry, with regard to the cotton title of the new farm bill, is for the continuation, with slight modifications, of the primary concepts contained in the Food Security Act of 1985.

The decline in the number of U. S. cotton gins has long been a concern throughout our industry. Prior to the enactment of the current title, the number of active cotton gins were declining at an alarming rate, going from 2,254 gins in 1980 to 1,774 in 1985. However, since the 1986-87 season, which was the first crop under the current cotton title, the number of U. S. cotton gins has stabilized, averaging 1,635 operating gins from 1986 through 1989. During this same period we have even seen several new gins being built in certain regions of the Cotton Belt. While this turnaround in the reduction of the number of cotton gins cannot be attributed totally to the current farm bill, the present cotton title certainly has helped stabilize cotton production and grower income, while encouraging some growers who were not producing cotton to do so.

The renewed enthusiasm for cotton, which again was at least partially brought about by the favorable provisions of the present cotton title, has been a positive influence on the cotton ginning industry, with many ginners updating their facilities to increase capacity and improve cotton quality.

In addition to the U. S. cotton ginning industry's support for the major concepts of the current cotton title, there are several specific provisions I would like to address.

New legislation should continue to include provisions for producer income protection through the target price concept, which we feel should not be below the level in the current Act, but be adjusted for inflation and generally tied to a national average cost of production.

We support the continuation of the current loan formula based on moving average spot prices with consideration given to world prices. The 50 cents/lb. minimum, as required in current law, should also be continued in new farm legislation. In addition, the availability of a non-recourse loan and the optional provision for an extension are essential for orderly cotton marketing and for producer income protection, and thus should be a part of new farm legislation.

Likewise, we recognize that the marketing loan provision in the current Act has been an essential component in keeping U. S. cotton competitive.

National Ginners supports the continuation of the marketing loan provision with the cotton industry's recommended changes to improve its effectiveness.

To maintain an adequate supply of U. S. cotton to service the needs of our textile customers, we also support the cotton industry's recommendation that acreage reduction programs be based on a target of the higher of a stock-to-use ratio of 33% or 4 million bales, and not exceeding 25%.

In addition, National Ginners supports the provision of a 1/2 ARP program that would be available at the producer's option, instead of the discretion of USDA. We also support the availability of a 0/100 program to assist farmers in cases of disaster only.

To help increase flexibility and maximize grower participation in the farm program, National Ginners strongly opposes any sort of gross returns "means test" for program participation. Toward that same end, we feel that cross- and off-setting compliance features should be prohibited.

The price of cottonseed has a direct impact on both producer and ginner income. Accordingly, in the event Congress implements a program for soybeans or other oilseed crops, which could adversely affect cottonseed prices, National Ginners asks that the new farm bill contain provisions for price protection of cottonseed.

In conclusion, the U. S. cotton ginning industry has been pleased with the cotton title to the Food Security of 1985. The current title's provisions have resulted in income protection for farmers, stabilized production levels, and increased cotton off-take. A continuation of its major provisions, with the minor modifications we have proposed, will help achieve our industry's future goals.

Thank you, Mr. Chairman and members of the Subcommittee for the opportunity to address you on this important subject.

STATEMENT OF JAMES W. CHESNUTT
ON BEHALF OF
AMERICAN TEXTILE MANUFACTURERS INSTITUTE
BEFORE THE SENATE SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION & STABILIZATION OF PRICES

March 1, 1990

Mr. Chairman and members of the Subcommittee, my name is James W. Chesnutt. I am Vice President of Materials Management for Harriet and Henderson Yarns headquartered in Henderson, North Carolina. I currently serve on the Board of Directors of the National Cotton Council, and I am a current member and former Vice Chairman of the Cotton Committee of the American Textile Manufacturers Institute. I appreciate the opportunity to present testimony to this Subcommittee on behalf of U.S. textile manufacturers.

ATMI is the national trade association for the domestic textile industry. Our member companies operate in more than 30 states and account for approximately 75 percent of all textile fibers consumed by mills in the U.S. Its members also account for some 90 percent of the cotton spindles in place today in the United States, and the vast majority of raw cotton consumed in the United States, about eight million bales.

ATMI is involved in numerous other aspects of cotton, such as bale packaging, rules of buying and selling, the delivery of cotton and other factors impacting raw cotton in the United States today.

The primary purpose of my statement this afternoon, however, is to focus on an issue of extremely high priority within ATMI and of highest importance to the economic well-being of U.S. textile manufacturers -- the price competitiveness of U.S. raw cotton. ATMI's concern regarding raw cotton is that the domestic textile industry have an adequate supply of the qualities necessary to meet processing needs and, most importantly, at a consistently competitive world price. This concern is particularly relevant to textile mills when it is recognized that, for the most part, they must by law rely on domestic cotton producers to supply that fiber. In other words, U.S. textile mills are essentially prohibited by law from purchasing raw cotton grown anywhere but in the United States.

Couple this with the fact that, in 1988 and for part of 1989, mills were required to pay higher prices than our foreign competitors paid for their cotton, then our priority interest in resolving this problem is understandable. During this period, U.S. mills are estimated to have paid at least $100 million more for their cotton than overseas mills paid.

Assuring the price competitiveness of U.S. raw cotton, as was called for in the 1985 farm legislation, has been the issue that ATMI and the cotton industry have struggled with for more than a year. I am pleased to tell this Subcommittee that agreement has been reached and supported by all seven sectors of the cotton industry on this issue. Delegates to the National Cotton Council annual convention last month ratified this agreement as the industry's position on competitiveness for inclusion in new farm legislation and future cotton programs.

The agreement addresses competitiveness by first defining what is meant by non-competitiveness in comparing U.S. raw cotton prices against world market prices. Then, when that definition is met, a three-part remedy to correct the problem is automatically triggered.

Specifically, the agreement calls for a competitive one-price system by continuing the marketing loan concept with the following adjustments, when the lowest U.S.-eligible component of the northern European price is higher than the northern European price. The first step is to further adjust the Adjusted World Price pursuant to the October 2, 1989 rule of USDA.

Second, assess the adjustment by comparing the price of the lowest U.S. cotton growth delivered C.I.F. northern Europe -- that is, the U.S. price -- with the average of the five cheapest growths delivered C.I.F. northern Europe -- that is, the northern Europe price -- in successive four-week, moving-average periods. If, for any four-week period, the U.S. price exceeds the northern Europe price, the Secretary of Agriculture would award handler certificates to domestic users or exporters for documented sales in the amount of the difference.

Third, compare the U.S. price with the northern Europe price in successive ten-week moving average periods, adjusted for certificate value. If, for any ten-week period, such U.S. price exceeds the northern Europe price, access to foreign grown raw cotton would be triggered. The initial amount would be equal to one week's consumption by U.S. mills, or about 140,000 bales if triggered today. Additional one-week quotas would be triggered in each successive week that the ten-week moving average U.S. price remained above the northern Europe price. Ninety days would be allowed for purchase and 180 days for delivery of the imported cotton from the time of initial and subsequent quota triggers.

Mr. Chairman and members of the Subcommittee, we strongly believe that this is the remedy necessary to avoid the costly problem which the domestic textile industry suffered, through no fault of its own, in 1988 and '89. We respectfully urge that it be incorporated into the new farm bill.

The textile industry is also concerned, as mentioned previously, that we have adequate supplies of cotton available, when it is needed. Cotton legislation has a direct bearing on that objective. Of particular interest to us is to have in new legislation a carryover target that realistically reflects actual consumption of cotton. Currently, the carryover target is four million bales, even though offtake is at the 16-million bale level. What ATMI proposes and has been endorsed by all sectors of the cotton industry is a new carryover target that will result in a stocks-to-use ratio of 33 percent or four million bales, whichever is higher. We believe that this target will help maintain an adequate supply of U.S. cotton that better matches the needs of the cotton producers' main customer, U.S. textile mills.

Mr. Chairman, other aspects of the federal cotton program are also important to us, and others will comment upon these this afternoon. I will again remind the Subcommittee that we do have a unified position to present regarding recommendations for new farm legislation.

Finally, we would like to recommend that the Subcommittee approve an amendment in the new farm bill to Section 204 of the Agricultural Act of 1956. This is an amendment supported by the National Cotton Council and advocated by ATMI. As you know, Section 204 contains the basic authority for the U.S. textile program. But that authority is contingent on there being a multilateral agreement in place. The U.S. government has proposed as its position in the Uruguay Round that the Multifiber Arrangement (MFA), which sets guidelines for world-wide textile trade, be phased out. The need, therefore, for such an amendment comes as a result of the U.S. government's position on textiles in this new trade round to phase out the MFA. In order for the government to be able to continue to issue regulations governing the textile program in the absence of the MFA, a change in Section 204 is needed to simply say that the President has the authority to do so in the absence of a multilateral agreement.

Thank you for this opportunity to present this statement.

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STATEMENT OF
JOHN PUCHEU, Jr.
CHAIRMAN, BOARD OF DIRECTORS
CALCOT, LTD.
BAKERSFIELD, CALIFORNIA
BEFORE THE
SUBCOMMITTEE ON AGRICULTURE PRODUCTION & STABILIZATION OF PRICES
OF THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION, & FORESTRY
MARCH 1, 1990

Mr. Chairman and Members of the Committee, I thank you for the opportunity to appear today before this committee. My name is John Pucheu. I am a farmer from Fresno County in California. I also serve as Chairman of the Board of Directors for Calcot, Ltd. headquartered in Bakersfield, California. Kevin McDermott, Vice President/Economic Research is here with me to help answer your questions.

Calcot is a grower-owned cotton marketing cooperative representing cotton growers in the Far Western United States, specifically California and Arizona. We have some 3,400 grower members who produce nearly two million bales of cotton annually. This represents 12% to 15% of the crop in the United States.

Many people fail to realize the importance of cotton production in the Far West. Cotton is the number one agricultural crop produced in both California and Arizona. In addition, about one-third of the nation's crop is grown in California and Arizona.

When the 1985 Food Security Act was being written, conditions in the cotton market were extremely bleak. Domestic mill use was declining, exports were sharply lower, stocks were rising and farm prices were low. Before discussing our proposals for the 1990 Farm Bill, it is important to review the results from the 1985 legislation.

In the 1985 Food Security Act, the U.S. cotton industry sought a new approach to enhance its competitiveness, provide support to grower income and ensure an adequate and stable supply of cotton to meet domestic and export needs. This new approach combined the existing 18 month non-recourse loan program and target price concept with a marketing loan, which would permit loan repayment at the Adjusted World Price.

This has been remarkably successful, despite the continual efforts that have been made to change the program. This program was never meant to assure that U.S. prices would be the lowest in the world, only that they would be competitive. In looking at the results over an entire season, rather than on a particular day, the 1985 Food Security Act has been successful.

For example U.S. cotton exports will average 6.8 million bales in the first four years of this Act, compared to only 5.0 million under the 1981 Act. Domestic mill use has surged from an average of 5.8 million bales to an average of 7.8 million under the 1985 Food Security Act. With these increases in demand, averaging 3.7 million bales per year or one-third more demand than under the previous Act, it is dramatically indicated that U.S. cotton has been more competitive under the 1985 Food Security Act. This increased demand has reduced costs of the cotton program considerably, to the point where it will be a net savings in the current season.

The basic concepts of the current legislation have been successful. Calcot supports maintaining the majority of the current Act. Let me review Calcot's positions on some of the specific elements of the 1990 Farm Bill.

The foundation upon which the current program is built is the 18 month non-recourse loan, which provides the support necessary for both financing production and supporting grower income. The 18 month period is critical to the success of the cotton loan program because agricultural production is uncertain. In any given season too much cotton may be produced. The 18 month period allows cotton marketing to bridge across crop years. If too much cotton is produced it would not be forced into an inelastic market, depressing prices. With a 10 month loan and the 8 month extension, the grower is able to market his cotton, instead of dumping it. The grower thus benefits when prices rebound the next season. Furthermore, without the 18 month term, price volatility increases and domestic mills would not be assured an adequate supply of cotton.

Criticism of the 8 month extension is unwarranted. This extension is not granted unless prices dictate the additional period is needed. Calcot supports the current trigger level of 130% of the previous 36 month spot prices used in determining when to offer the extension.

Some have criticized the 18 month loan program for keeping cotton off the market. However, the facts reveal cotton has not been trapped in the loan as claimed. Only six-tenths of one percent of the over 26 million bales that have entered the loan under the 1985 Act, have been forfeited to the CCC, compared to the 9.4% of the loans entered under the 1981 Act. Clearly the program has worked.

As an industrial raw material in an inelastic market, cotton is different from other agricultural commodities. The cotton loan level is currently established using a formula that compares U.S. prices over the last five years with the most recent season's world prices, and sets the loan based on a percentage of the lower of these two levels. This provision, which sets the cotton loan at a current market-determined level, is not contained in the formulas used for other commodities. Calcot supports this current formula using either 85% of U.S. spot prices or 90% of world prices. We do suggest the world price comparison use the Adjusted World Price.

Target Prices were begun as a market-oriented approach to supporting farm incomes. The gradual reductions incorporated in the 1985 Act have brought the cotton target price down 10% over the last four years. Calcot urges the committee to consider using the cost of production when determining appropriate target price levels.

The marketing loan has worked for cotton. While our industry has struggled to find agreement on a proper formula for establishing the A.W.P., we believe the basic concept is sound. Calcot supports the current formula including the discretion given to the Secretary to adjust the A.W.P.

Calcot strongly believes in maintaining a competitve one-price system. While we believe the current formula will provide competitive prices, we must assure our domestic mill customers that they will be able to purchase cotton at prices available to their foreign competitors. We support the Assured Competitiveness proposals adopted by the National Cotton Council. These proposals would provide handler certificates if U.S. prices were above foreign prices for four successive weeks. We believe these programs will be successful. But, if they are not and U.S. prices are above foreign prices for ten consecutive weeks, an additional availability to imported cotton must be allowed U.S. mills.

When it becomes necessary for a program which limits acreage, it is important that the program be voluntary--not mandatory. If farmers wish to take advantage of the program benefits, they will comply; if they wish to stay outside the program, they should be given this opportunity. Without this free choice U.S. farm programs becomes no different than a centrally planned economy. This is particularly important to Western producers, since the unique quality of our cotton allows Western cotton to be sold when other cotton may be in surplus.

Perhaps the one certainty in agriculture is uncertainty. Conditions change constantly and farm programs must be flexible enough to adapt to these changes. The 1985 Act mandated that the Secretary administer a program to assure a carryover of four million bales. It would be more appropriate to use as a trigger for Acreage Reduction Programs the ratio between ending stocks and use. We support the goal of 33% adopted by the N.C.C. with the four million bale minimum to guarantee adequate stocks for U.S. mills.

Flexibility has been a key word in discussing the 1990 Farm Bill. Calcot suggests that a key reason that flexibility has not existed in the current program has been cross compliance. We urge that the committee prohibit cross compliance as a condition of participation in the cotton program.

Calcot opposes including cotton in any Normal Crop Acreage proposal, since cotton has a relatively small acreage base that would be overwhelmed by other program commodities. As a result, cotton should be treated with a crop specific acreage reduction program.

Flexibility is best addressed by allowing growers to evaluate their planting intentions similar to this year's wheat program. In such a case a grower would be allowed to plant additional acreage, but would do so realizing this additional acreage would not be eligible for deficiency payments.

The 1985 Food Security Act allowed a 10% base shift among program commodities. This should be mandated under the 1990 Farm Bill, but growers should not be allowed to build base on this shifted acreage.

As a result of changing supply/demand considerations, some have suggested postponing the announcement date from November 1 to January. As the largest cooperative representing cotton growers, we know this would be extremely detrimental to Western producers. Our growers begin preparations for the next season as soon as they harvest. We need an announcement no later than November 1 and many growers would prefer knowing earlier. We support the dual announcement dates endorsed by the NCC. If conditions change the Secretary would announce additional paid diversion or allow amended contracts with additional acreage outside the program, but the basic program must be announced by November 1.

With regard to acreage bases, Calcot supports using a three-year moving average. This formula should be standardized across commodities. The current one-year lag in ELS base calculation combined with the restriction on building ELS base without reducing base on another program crop can lead to a grower losing their base. This situation must be remedied.

A serious flaw in base calculations must be corrected. Growers must be allowed to certify zero plantings and protect their base. Growers now lose half their base in a single year if they do not plant cotton. This has caused some growers to plant simply to protect their base. If a grower decides not plant a commodity, that farmer should not be forced to plant solely to protect a base.

Yields used for program purposes should be based on historical yields. The current practice of using yields frozen at 1985 levels encourages inefficient producers. We urge the committee to return to using moving historical yields.

The concept of producer-financed research and promotion has been strongly supported by the cotton industry. Cotton Incorporated has been a proven success and we support the current legislation to provide for a uniform assessment.

Some may call for major changes in the cotton program, but Calcot believes in maintaining what works. The 1985 Act has worked. While we support fine-tuning the current program, we urge the committee to support the basic concepts of the 1985 Act. Calcot believes that the 1990 Farm Bill, if drafted along these lines, will allow for continued expansion of demand and will permit cotton growers to share in the prosperity of the industry.

Senator **Pryor**. About every 100 yards, you all have an oil field, do you not, or an oil well?

Mr. **Pucheu**. Not quite.

Senator **Pryor**. I have never seen so much oil production in all my life, as you have right there in your area.

George Dunklin, let me ask you a question or two. If the marketing loan is achieved, if we are able to retain the marketing loan, and if we can have it applied to oilseed crops, and I hope one is, is there going to be enough security for that particular industry that you represent, if we included the provision that required the Secretary to maintain the so-called historical level of price relationship between cottonseed and other oilseeds? What would happen if we include that provision?

Mr. **Dunklin**. Yes, sir, I think that would be a very adequate way to do it, Senator. What we are frightened about, if the marketing loan does come in on soybeans and greater production is encouraged, which I assume is the goal of it. All oilseed products, in all probability, will drop. We have no floor at all on cottonseed products, so we could see cottonseed, which in our area today is in the $100 range, if we catch a drop on say soybeans to 4½, we could see cottonseed next year in the $60 to $70 range, which would be a terrific impact on the industry.

So I think if the relationship that you referred to could be maintained or perhaps written into the bill, it would be certainly a source of protection to us.

Senator **Pryor**. The other question I would like to ask you, George, I think you are the only witness this afternoon that has made mention of this COAP program. I would like for you to go a little more, if you would, not orally at this time, but if you would follow on with maybe a letter to the committee on some of the reasons that program is not working. I think Senator Cochran and Senator Bumpers and Senator Leahy and others have cotton some money appropriated for that program and it is just not working, and I would like to know why.

Mr. **Dunklin**. Well, we would appreciate the opportunity to do that, Senator. Without going into details today, it seems that our requests for an explanation from the FAS, as to why this program has not been activated, have not really been responded to. We have gotten their sympathy, but we have not gotten any action on it.

I might note that the funds being put into this program, as I understand it, came from import duties, not from general taxation duties. Of course, if the money is not used, the first $20 million, by September 30 of this year, the cottonseed oil industry will lose it.

We have tried to have other countries designated as targets for COAP, among them the Dominican Republic, Venezuela, Korea, all of which in the past have been users of cottonseed oil, but have gotten no action on it. It seems that the only criteria being used are countries in which cottonseed oil is in direct competition with the EEC, and that does not hit us very much.

So we would like very much to look into it further and maybe to write your committee what we know about it.

Senator **Pryor**. We would appreciate that. That would be a great contribution.

Now I would like to ask a question of Mr. Chesnutt now. I do not know if you are the one that I should pose this to, but let me give you a try. We have not talked any today about—the reason I am asking you, you talked about the seven sectors of the cotton industry.

What is the feeling out there in the seven sectors relative to the potential for the changes that are happening in Eastern Europe? Is there a potential for the American or the domestic cotton industry in our country today to take advantage of these changes?

Mr. CHESNUTT. We think the markets that might be available in Eastern Europe as a result of those people having the possibility of being able to have more income to spend, is going to increase the demand for soft goods, particularly textile products, maybe more so than automobiles or color TV's or that kind of thing.

We would hope that as a result of this increased consumption in those eastern countries, that in some way it could have a positive effect on our industry, either in one of two ways: opportunities for us to maybe sell some goods into that part of the world, or maybe an opportunity for some of the people that continue to ship so many goods into our country for those people maybe to target the Eastern European countries and take some of the pressure off of us, that we have on our industry.

You know what problems textile and apparel imports are causing in this country; and they continue to grow every day. We have a concern that imports from Eastern Europe could add to that problem. They are at record levels now and seem to be continuing to reach record levels every month. But yes, we think there is some potential for cotton consumption, both domestically and in the world.

Senator PRYOR. Senator Cochran knows this, I told him the other day that in Arkansas, as George Dunklin knows, we are selling Arkansas chickens in Romania. We never thought we would do that. We are selling Arkansas made Chicken McNuggets in McDonald's in Moscow. So things are rapidly changing. I hope we can seize that change and make it count for good for our own people here, as much as for them.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

I am curious about what the cost per pound of cotton is in areas outside the United States. Mr. Chesnutt mentioned that the law prohibits the purchase of that cotton by textile mills here. What is the disparity in the cost right now? Do you have that information?

Mr. CHESNUTT. I think today we probably, as world prices are calculated, and as we find a way to discover the world price and adjust that back to the AWP that you asked one of the witnesses about earlier, I think that we find ourselves today maybe competitive, but there have been times that we are not competitive because of different things that are taking place in the market.

Today, we are relatively competitive, as best as we know it. There may be a flaw in the way that we discover the world price. There may be some things that occur in countries that we are not certain about. For instance, there are countries such as Pakistan that may need to get cotton delivered to their domestic mills at cheap prices so that they can make apparel products to sell to the United States in order to get their hands on the nice greenbacks.

The world price, as we know it today, is discovered based on asking quotes, not actual trades. That is probably a flaw. But I think as best as we know today, that we are fairly competitive.

Senator COCHRAN. Senator Pryor and I had an interesting experience. We led a trade delegation to China several years ago. The idea was to promote the sale of U.S. grown agricultural commodities to the People's Republic of China. After our trip they quit buying cotton from us. We like to think that it did not have anything to do with our salesmanship, but policies there change from time to time, and in other countries they do, too.

That is an interesting part of the dilemma, that we would not want to become too reliant on foreign suppliers because of the risks that we would end up taking with respect to the availability of those supplies.

I just wonder, though, in connection with the changes that we see taking place around the world, you mention the Eastern European situation and the opportunities that that might present. We already know of some, like the poultry industry and the delegations that they sent to negotiate agreements with Romania and the Soviet Union.

What is the likely impact on the cotton industry? Has anybody had a chance to digest that? Mr. Traylor, how about the cotton shippers? Do you see any likelihood that we will be able to realize large shares of markets over there because of these market oriented changes?

Mr. TRAYLOR. Senator, the answer is yes. We see a great opportunity. We see a great opportunity for the American cotton industry all over the world, not just that part of the world. We see cotton consumption growing yearly. With a true marketing loan we could take advantage of that.

I would just like to point out a few figures as proof of our statement that we would like the producer to have more flexibility in which to respond to market demands. Under the 1981 Farm Act, in 1985 our total use of cotton was 8.3 million.

Senator PRYOR. Excuse me, what do you mean the total use?

Mr. TRAYLOR. Export and domestic use. Under the 1985 act, in 1986 our total use was 14.2 million. In 1987, 14.2 million. In 1988, 13 million. In 1989, 15.9 million. And those are all USDA figures. According to the American Cotton Shippers economic consultants, in 1990, our total use is projected at 14.4.

So we see a trend now for our total use to be rather constant. We think that the chance for flexibility, to respond to these markets, ought to be greater so that our figures will continue to show total use increase every year.

Senator COCHRAN. Mr. Chairman, I do not have any other questions. I just want to compliment this panel for the excellent job that they have done in presenting the views of the people they are here to represent today. I think that we have benefited from this experience. I know I have learned a lot. I just want to express my personal appreciation for your taking the time and making the effort to prepare these statements and be here to present the testimony that you have to us today.

Thank you very much.

Senator Pryor. Thank you, Senator Cochran. I also would like to thank this panel and the other panels that have appeared before the subcommittee. This has been almost a 3 hour hearing. We have had a good discussion of the issues and where we are and where we need to be going.

We have some differing opinions, but if I could summarize this afternoon's activities, Senator Cochran, I would say of all the groups that have come before the subcommittee thus far this year, in preparation for getting down to drafting a new farm bill for 1990 and the ensuing 5 years, I think what I have detected and would summarize is unity, basic unity within this industry.

I would like to compliment you for it. Many times we sit at this table, divergent viewpoints, two political parties, liberals, conservatives, middle-of-the-roaders, all of us having an interest in promoting agriculture and trying to see the American farmer out there not only survive but flourish.

Many times groups come in here with all kinds of differing opinions, representing the same segment of the agricultural economy. That makes it very, very difficult for us to try to make ends meet and try to get these ideas coalesced into any sort of a policy.

We are going to do our very best in preparation for deliberations with the full committee, in stating that we sense there is a great deal of unity in the cotton industry across our country, from all sections of our country. There may not be total unity, but at least there is certainly a spirit of working together and wanting to work together and cooperate.

We appreciate that very much. We know that that has been a new milestone, I think, in trying to get all segments together, and that is going to make our work, I think, a great deal easier.

We want to thank all of you again for coming and it has been a very constructive hearing, and our meeting will now stand adjourned.

[Whereupon, at 4:59 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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